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More on Green Jobs …

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The great green hope

Green jobs offer new opportunities, but don't believe everything in the sales pitch

By RONALD A. WIRTZ
Editor

Go to certain blustery parts of North Dakota—which is to say much of it—and wind turbines stretch as far as the eye can see. Or at least might someday.

At summer's close, the state had about 840 wind turbines, capable of producing almost 1,300 megawatts of electricity, enough to power close to 400,000 homes all year, according to the state Public Utilities Commission.

But that's just a start. By some estimates, North Dakota has the largest wind-power potential of any state in the United States. Another 6,000 megawatts have been formally proposed to the PUC, but there is wind-blowing capacity for upward of 20 times that figure, according to the American Wind Energy Association.

Many see such expansion as an example of big job possibilities in a green economy, as crews install turbines and maintenance workers keep them spinning, pumping dollars into the local economy. A report last year by Minnesota 2020, an environmental advocacy

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group, claimed that if done right, the wind industry "can create thousands of jobs, [and] revive the economic base of many Minnesota communities hit hard by the recession."

There's just one little annoyance: As a job creator, wind power doesn't pack much punch. For example, the new Prairie Wind development near Minot, N.D., has 77 turbines with a capacity of 115 megawatts. It has eight operations and maintenance employees—about one for every 14 megawatts of capacity, according to figures from Mike Eggl, a senior vice president with Basin Electric Power Cooperative, which operates the facility.

Coincidentally, Basin is building a 300-megawatt natural gas power plant near Elkton, S.D., which expects to employ 31 full-time employees—roughly one worker for every 10 megawatts. It's also building a new 385-megawatt coal-fired power plant in Wyoming, which will employ 80 to 85 when finally operating, or about one worker per 5 megawatts. The coal project will also employ 1,200 during peak construction, compared with about 230 for Prairie Wind, where the peak construction period was also shorter, said Eggl.

"We like wind, coal and natural gas. We don't have a stake in which one has [advantages] over the other," said Eggl. But he acknowledged that there are "significantly more" jobs attached to coal plants on a proportional basis.

Xcel Energy has the most wind-generated power of any utility in the country, yet "it's really hard to quantify" the effect of the green movement specifically on company employment, said Beth Chacone, environmental policy manager for Xcel. "I know [the green economy] gets a lot of press, but we're not sure there is job creation."

If that surprises you, you're not alone. The push for a cleaner, less carbon-intensive economy has brought with it a widespread, parallel argument that it will usher in a wave of so-called green jobs—a catch-all phrase that encompasses a variety of jobs related in some way to the environment. During a visit to southeastern Wisconsin in mid-August, President Barack Obama promoted renewable energy and other "cleantech" opportunities that would "lead to more than 800,000 jobs by 2012."

Without doubt, a shift toward alternative energy sources, greater energy efficiency and environmental awareness offers the economy new opportunities to sprout and take root. Given the current economic malaise, many believe the green stars are aligned to deal with carbon emissions and climate change while also kick-starting job creation, which has lagged as the nation climbs out of recession.

In Michigan, a state ravaged by the recession and its dependence on a declining auto industry, a May 2009 report on the future green economy said it provides "a dynamic opportunity to rebuild the state's job base, attract new investment, and diversify the state's economy. We may be at a tipping point of awareness, understanding, and opportunities that a green economy can provide for Michigan's workforce, businesses, and communities."

It seems that almost everyone wants to be connected to green jobs. State and local governments are competing with each other over who is the greenest and how to best promote green jobs. Even the American Petroleum Institute claims that the oil and gas industry has created 1.2 million green jobs during the past decade.

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One of the Minneapolis Fed's congressionally mandated responsibilities is to gather information on the Ninth District economy. The *fedgazette* is published quarterly to share that information with the district, which includes Montana, North and South Dakota, Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan.

The opinions expressed in the *fedgazette* are expressly those of the authors or of attributed sources and are not intended to represent a formal position of this bank or the Federal Reserve System.

But the perceived promise and the resulting push for green jobs often lean on figures and other analysis that one might say are color blind. The very definition of a green job is squishy, which makes green-job estimates and projections equally soft and hard to trust. More careful analysis suggests that the net job impact of the green movement will likely be smaller—possibly much smaller—than advocates might have you believe.

This might not be a big deal were it not for the green zeal of public policy, with efforts at all government levels to accelerate the development of green jobs at the local, regional and state levels. Despite the best of intentions to help a dreary employment market, policymakers likely have an outsized view of government's ability to grow—indeed, will into existence—more jobs, particularly green ones.

That doesn't necessarily mean that policymakers should take their green ball and go home. Though some criticize any government role in promoting—some might say forcing—a shift to a greener economy, economic theory offers solid rationale for government involvement when markets fail to properly incorporate all costs—in this case, the societal costs of greenhouse gas (GHG) emissions and other pollution from the burning of fossil fuels.

Effective government policy along these lines—carbon taxes, cap-and-trade permits—might be decidedly less sexy, less "do something" for policymakers and more politically difficult. But such policy focuses on the market failure in question (pollution and GHG emissions) rather than promoting the vague notion of green jobs and lets the market figure out where economic opportunities—and by extension, jobs—lie in the new, greener economy.

(*Editor's note:* This analysis accepts, as a practical matter, the prevailing view among scientists that emissions of carbon dioxide and other greenhouse gases are harmful to the global climate. It does so to analyze the economic and policy responses that have evolved in response to environmental concerns over GHG emissions and other pollution. The Federal Reserve Bank of Minneapolis has no official stance on the continuing debate over climate change.)

Feeling a little green

First, a quick word about green jobs. Their definition is wide-ranging, even unwieldy. Green jobs generally refer to those whose work is focused on using energy more efficiently, reducing waste and pollution, and creating products and services that are environmentally beneficial, or at least more benign than their predecessors. There is some controversy surrounding what green jobs are and, importantly, are not (see article on page 6). But for the moment, set this definitional matter aside.

You don't have to look too far or wide for reports trumpeting the job virtues of green. A June 2009 report from the Center for American Progress and the Political Economy Research Institute calculated that an annual, decade-long investment of $150 billion in clean energy would generate 1.7 million net new jobs. A report by the Conference of U.S. Mayors identified 750,000 green jobs as of 2006 and projected job growth of 2.5 million by 2013 (and 4.2 million by 2038) if the nation adopted a 40 percent renewable energy standard.

More recently, a July 2010 report by the Center for Climate Strategies and Johns Hopkins University projected that 2.5 million net new jobs, $160 billion in added output, and cheaper energy prices could be achieved by 2020 if policies and other measures found in state climate plans were implemented nationwide.

Some reports have also found that green jobs and firms are growing at a faster rate than the overall economy—no small matter at a time of high unemployment and frustratingly slow job creation. Last year, Pew Center on the States found that total job growth in the clean energy sector was much stronger (9.1 percent) from 1998 to 2007 than in the overall economy (3.7 percent).

A green jobs report in Michigan, based on a survey sample of about 360 green-shaded firms, found that 70 firms had been formed since 2005—"a much higher rate of startups than is seen in the overall Michigan economy." Firms in the sample also added more than 2,500 jobs—an employment increase of 7.7 percent—a stark contrast to the average decrease of 5.4 percent in all industries statewide.

Green = envy

That economic promise, mixed with some desperation from the recent recession, has pushed many governments to aggressively promote, nurture or lure more green jobs.

As the U.S. Conference of Mayors report noted—and others affirm—"The vast majority of green jobs are not location dependent, so future green jobs will be located in cities and metropolitan areas that are currently the most attractive for investment, or in areas

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that actively increase their attractiveness relative to competing areas."

Loosely translated: If we don't do something, green jobs will go elsewhere, and our state (or region or city) will miss out on green economic growth. So policymakers at all levels have been busy pushing for subsidies or other support for green sectors and individual firms in hopes of gaining a foothold in this brave new area of the economy.

A thicket of green policy already exists at the federal level. According to a report last year to the president and Congress by the Committee on Climate Change Science and Technology Integration, more than 300 federal programs and policies were designed to accelerate commercialization and deployment of technologies and practices that reduce greenhouse gases. That doesn't include the federal economic stimulus bill, which has funneled tens of billions of dollars into existing and new programs with green objectives. Nor does it include on-again, off-again proposals in Congress for cap-and-trade limits on GHG emissions.

States also have followed in tow, aggressively writing green policy. In a report last year, the Pew Center on the States found that 46 states offer tax incentives to encourage renewable energy use or greater energy efficiency among corporations and residents; 33 states offer loan financing for energy efficiency; 22 states offer rebate programs for solar energy; 29 states have renewable energy mandates (a.k.a. minimum production thresholds); and 14 states plus the District of Columbia have adopted tougher vehicle emissions standards, following California's high-profile lead.

In the district, Minnesota has been out front in terms of policy efforts to promote green jobs. Two years ago, Gov. Tim Pawlenty unveiled a green jobs investment initiative that included new tax incentives and investment credits worth tens of millions. Said Pawlenty at a news conference, "The development of green jobs will be one of the biggest changes in our economy since the industrial revolution."

State policymakers have fallen in line with that thinking. A January 2009 review by the Minnesota Office of Energy Security found 10 agencies with 74 grant and loan programs designed to advance the growth of the green economy (though to varying degrees among individual programs).

Local governments add a final layer of green policy. For example, in June of this year, the cities of Minneapolis and St. Paul launched Thinc.GreenMSP, a joint economic-development partnership "to retain, grow and attract green-manufacturing businesses and jobs" in the region, according to the program.

The effort combines various policy strategies, including efforts to recruit green businesses and a new financing program to help green firms grow. It also encourages local green purchasing by the two city governments and seeks greener building standards that "create demand for manufacturers, vendors and suppliers of green products and services."

Greenhorn policy

The assumption is that all such policy efforts are useful, even critical, for economies at every level to grab a share of the green-jobs pie, and they'll benefit by doing so. That's questionable, if for no other reason than they might be battling over a smaller green pie than is commonly perceived.

For starters, the common definition of a green job makes for a big tent. Most studies apply some mixture of categories that includes renewable energy, energy efficiency, pollution prevention and clean-up, and natural resources conservation. That sounds reasonable, but the transition from definition to occupation to job counting is more difficult than it might seem and makes counting green jobs more of an art than a science. Indeed, state and federal labor market agencies are spending millions trying to get their hands around this issue (see article on page 6).

Most people would agree that renewable energy production qualifies as a green job. But things can quickly get subjective. For example, does corn-based ethanol qualify as green given research showing that it has emission and efficiency issues of its own? Manufacturers and installers of geothermal heat pumps would certainly seem to be green. But what if that same plant also produces plain old water pumps—gasoline-powered ones at that? What if a geothermal installer works for a traditional heating and air conditioning company, and geothermal is just a small part of the business?

Or what about mainstream businesses that now are seeing new opportunities just by doing the same thing they've always done? A study by the American

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Bus Association Foundation showed that motor coach travel was the most fuel-efficient mode of transport. Does this fact make a motor coach company—like 80-year-old Jefferson Lines of Minneapolis—a green firm? What about a bus manufacturing plant like the Motor Coach Industries facility in Pembina, N.D.? What if that plant also now makes hybrid buses?

The answers to such questions heavily influence any census of green jobs; the broader the definition, the larger (and softer) the estimate. The Montana Department of Labor and Industry released a July 2009 report on green employment in the state that encapsulates much of the methodological difficulties of green counting. It applied seven definitions of green, including methodologies used by the U.S. Bureau of Labor Statistics, as well as those in studies by peer agencies in Washington state and Oregon. Estimates of Montana green jobs ranged from 4,000 to 22,000, or between 1 percent and 5 percent of total nonfarm employment. "Estimating the number of green jobs in Montana is a process fraught with complications," the report said.

Heavy green thumbs

These measurement idiosyncrasies suggest that bold estimates for new green jobs have a methodological thumb on the scale. Most labor economists—and a few methodologically careful studies—are more conservative in their estimates.

The Minnesota Labor Market Information Office has been formally studying the green jobs issue. "One of the things we're finding is that the [green] share of employment is not a major factor" in the economy, said Steve Hine, LMI director. The agency's research to date has allowed it to start applying the green model to its job vacancy survey. In the most recent survey, less than 2 percent of vacancies "were deemed to be green," said Hine.

Hine said such a conclusion shouldn't be that surprising because "[green] growth areas are not particularly labor-intensive." Wind farms, for example, "are not a good place for labor [creation]," he said. If you don't believe it, go visit one. "You may be the only person around."

And as the (adapted) saying goes, the more jobs change, the more they stay the same. "As a job-creating engine, many of the [green] jobs that will exist in 2020 are already here," said Hine, adding that even some hot new green jobs are not wildly unique. "There's nothing particularly new or different about windmill maintenance. You need to be able to handle tools, climb great heights, work in cold conditions and live in remote parts of the state."

This past June, GSP Consulting released a report on the renewable energy sector in Minnesota on behalf of the Minnesota Renewable Energy Marketplace. It estimated that the state will see jobs in this sector grow from an estimated 59,600 in 2009 to about 64,000 by 2016—nothing to sneeze at given the current job market. But at an annual compound growth rate of 1 percent, that's equal to average job growth in the state from December 1997 to December 2007, when more than 250,000 jobs were added.

Two years earlier, GSP also prepared a green jobs estimate for a Minnesota green task force report and offered a similarly modest estimate: about 53,000 jobs (about 2 percent of private nonfarm employment) in 2006, which the report expected to grow to somewhere between 55,000 and 73,000 by 2020, depending on a variety of policy and market factors. When GSP Consulting released those figures to the committee, "some of the task force members said, 'Is that it?'" said Richard Overmoyer, principal at GSP.

Overmoyer said that the firm takes a "very conservative approach" when it comes to counting green jobs. It involves not only identifying a green type of job, but also looking at market size and share. He believes that there is a lot of overreporting of green jobs because analysis often does not accurately reflect the proportional size of a particular green market. Instead, all jobs in a category are counted as green even if only some are involved in such work. In some analyses, Overmoyer said, "every electrician is green because one installed a solar panel."

Overmoyer said only a small fraction of green jobs are truly new, in the sense that these jobs didn't exist in any capacity in the past. Instead, most green jobs are those that have evolved with some green component or focus. It's difficult to pinpoint exactly when that transition occurs, and even firms don't always recognize that they have green jobs. When researchers ask a roofing products company about the number of green jobs, "they'll be like, 'none,'" said Overmoyer. "But when you ask them how many are involved in manufacturing green products, they'll say, 'Oh, 50.'"

That identity problem is ubiquitous, because green principles apply across industry sectors. Consider the housing market. Dustin Stewart, head of the Montana Building Industry Association, said green building was an emerging market in the state's housing industry, but the recession and the subsequent housing slump stunted that growth.

Yet even when the housing market was healthy, the green building movement didn't really change the nature of the construction business, according to Stewart. The organization continues to run a popular certification program for green building, which has been completed by at least one worker from 60 percent of member firms.

"There hasn't been a whole lot of new jobs created. What I see are existing businesses shifting to include some green aspects," like a builder who can incorporate advanced framing techniques that make homes more energy efficient, Stewart said. "I think that has somewhat been glossed over."

Corner-of-the-eye analysis

Though green might be the way forward, when it comes to employment promises, analysis also has to have the peripheral vision to see economic tradeoffs and their net effect on employment. For example, environmental regulations tend to impose higher costs on consumers and businesses; despite steady cost improvements, renewable energy is still more expensive than conventional power. That doesn't negate the local impact of a wind installation, nor its environmental benefits. But higher energy costs have a dampening effect on jobs overall, a fact that tends to be underplayed.

Certain green sectors might also be producing jobs, but the net gain might not be very large. As the Prairie Wind example shows, wind farms do create jobs, but proportionally fewer than similar power plants using fossil fuels. Part of the reason, according to Eggl from Basin Electric, is that "the wind is free," and most of the investment is in upfront capital—the manufacturing of the wind turbine itself.

And, in fact, component manufacturing for wind towers has been growing strongly over the past half-decade. The National Renewable Energy Laboratory has identified 15 plants in the district that manufacture components for the wind industry, most of them opening in the past five years.

That's had a notable effect on employment. In North Dakota, jobs in wind manufacturing doubled to 1,300 from 2006 to 2008, according to data from Job Service North Dakota. The sector lost about 225 jobs last year, but that's expected to rebound this year with a proposed wind tower plant in Bismarck by Schuff Steel, a move that is expected to employ up to 300 workers.

Still, those figures pale next to employment trends in the oil and gas industry in North Dakota. Employment there roughly doubled from 2006 through the end of 2009, despite a significant but temporary drop when oil prices plunged in 2008. At about 5,800 jobs last December, the state's oil and gas industry employed more than five times that of wind manufacturing, and at nearly twice the wage—$80,000 versus $43,400—according to Job Service figures.

In Dickinson, N.D., located in the southern portion of the Bakken Formation, ground zero for oil deposits in the district, "you won't find a lot of people that are down on fossil fuels," said Vicky Steiner, executive director of separate associations for coal-producing and oil- and natural-gas-producing counties. "We're booming while the rest of the country is in recession."

Steiner said oil counties in North Dakota are not necessarily fighting the economic transition, but major economic shifts occur very slowly. "The public thinks the green economy is right around the corner. But it's not as close as people think or want it to be," said Steiner. "The public talks a lot about green energy. … The myth is that the transition is simple. It's not. You need infrastructure in place, and the public is not demonstrating it wants it" at any cost.

"People like low-cost energy, and if [green energy] lowers their standard of living, people won't go for it," Steiner said. "I don't see the sacrifices coming from the public, and politicians don't like making the public unhappy."

Happy green ending?

Add it all up, and those hoping for a green makeover might be disappointed if they are expecting a sea change in how the broader economy looks and acts.

Hine, from LMI, noted that green jobs appear to be the latest in a long line of economic silver bullets—new sectors with clear promise that got exaggerated beyond their real potential. "Ten years ago, high-tech was the ticket to never-ending economic growth," said Hine. Health care, biotech and telecom have also had a turn. These have been important economic developments, but they also have limits. The enthusiasm for green "is not a new thing," he said. "It's a grasp for the next new thing."

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Other sources pointed out that while the green movement will be a contributor to any job recovery, it doesn't yet have the scale to pull the economy out of its job slumber.

Sarah White is a senior associate with the Center on Wisconsin Strategy and formerly of the Wisconsin Department of Workforce Development. White said that green jobs have "tremendous opportunity, and not just for environmental, moralistic reasons." But she added that somewhere along the way, the message of potential job creation, which could be driven by massive public and private investment in clean energy, was mistaken for a promise of actual job creation. "The environmental movement tied the green movement to the jobs agenda without talking to people who understand labor markets," she said.

As a result, "I think in many ways green jobs have been oversold. If people are looking for [a lot of] new green jobs around the corner, they aren't there," said White. "All jobs can and should be greener. But green jobs are not going to solve the structural problem in the job market."

That's because there is an ongoing mismatch between labor skills and demand, but the mismatch is not unique to green jobs, White said. It applies across the economy, and, according to White, the mismatch is particularly relevant among low- and middle-skilled workers. "We don't have people ready for the workplace. … There's not a lack of green skills. Many workers don't have basic skills."

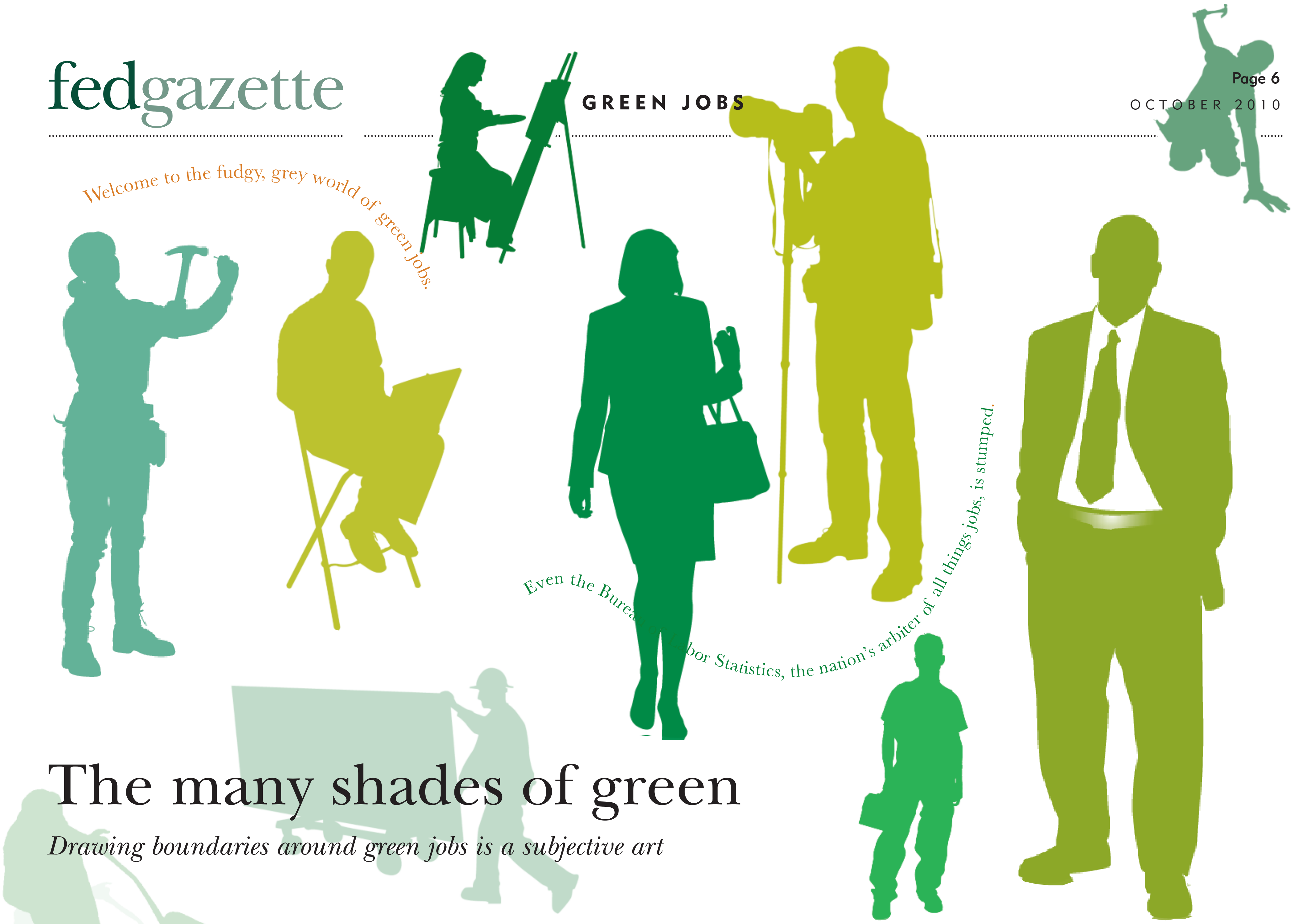
Fix that problem, and you've gone a long way toward fixing the mismatch problem while preparing workers for a rainbow of jobs, not just green ones. It's a myth, White said, that "green jobs are new and different. … There isn't an identifiable suite of new green skills. Most green jobs will involve traditional skills in traditional occupations."

That notion shouldn't necessarily disappoint or deter advocates either. Rather than something completely new and different in the economy, green jobs in many ways have always existed; innovation has regularly delivered new products and processes that are less energy-intensive because it helps firms be more productive and thus profitable.

"Green jobs [are] not necessarily a new phenomenon," said Barbara Wagner, a senior economist with the Montana Department of Labor and Industry and head of a multistate consortium looking at green jobs. "The challenge is to ask how the green movement impacts the long-term functioning of our economy."

For example, Wagner said, "The movement to be more environmentally friendly is changing consumers' preferences and is changing what types of goods are produced in our economy." That's likely to continue, even accelerate, given greater recognition of environmental costs of burning fossil fuels, which Wagner believes is a "long-term trend in our economy."

"Whether or not the trend continues to be labeled 'green' or some other label remains to be seen," said Wagner. "Green jobs have made a number of headlines in the last few years, and some of that attention may fade over time." f



The many shades of green

Drawing boundaries around green jobs is a subjective art

By RONALD A. WIRTZ
Editor

Imagine reading this job description:

Must have experience in one or more of the following: renewable energy, waste reduction, resource utilization (or nonutilization, really) and environmental sustainability and preservation (inquire within for technical description). Job involves these things either in part or in whole and is either production- or service-based (though we can't tell you which one). If you think you qualify (and you probably do), apply at your nearest state labor information office.

Welcome to the fudgy, gray world of green jobs. While politicians and environmental advocates promote the promise of green jobs, labor economists have been, well, laboring over how to define and count them.

Even the Bureau of Labor Statistics (BLS), the nation's arbiter of all things jobs, is stumped. It's been looking at the green jobs issue for a couple of years now. In 2009, it joined forces with state labor economists on a working council to examine the matter more closely. One of its first tasks was to review what had been done to date.

"The general impression was there was no consensus on the definition of green jobs," said Dixie Sommers, BLS assistant commissioner for occupational statistics and employment projections. The bureau now is in the throes of a formal, $8 million study "to identify green economic activity and produce data on the associated jobs."

State labor departments and others are also spending time and money playing definitional catch-up in hopes of getting a better grasp of what green jobs are, and are not. While many jobs might appear green on the surface, a little definitional scratching shows that many have only a green veneer.

Unfortunately, green jobs don't fit well into the hierarchy of traditional job classifications that researchers use to tally employment. Current methods are akin to counting apples using the alphabet. Labor economists are developing methodologies to better bridge this measurement gap, but in doing so, considerable subjectivity seeps in, leaving virtually any methodology open to debate.

A closer look

The BLS has gone further than anyone to identify green-hued areas of the economy.

"As a statistical agency, we're concerned with measuring standard things. But we want to address what's happening in the economy and what people are asking about," said Sommers. The agency undertook similar efforts when high-tech and information technology jobs were all the rage a decade ago to determine whether a fundamental transformation was occurring in the economy. "One way to find out is to measure it," Sommers said.

The matter is also important, she said, because green policy and investments are going forward despite the lack of good data. Other data-gathering organizations are looking to the agency for leadership. "We knew that states would be pushed to do their own [green] data collection," Sommers said, and the BLS wanted to have some methodological stakes in the ground to help guide those efforts.

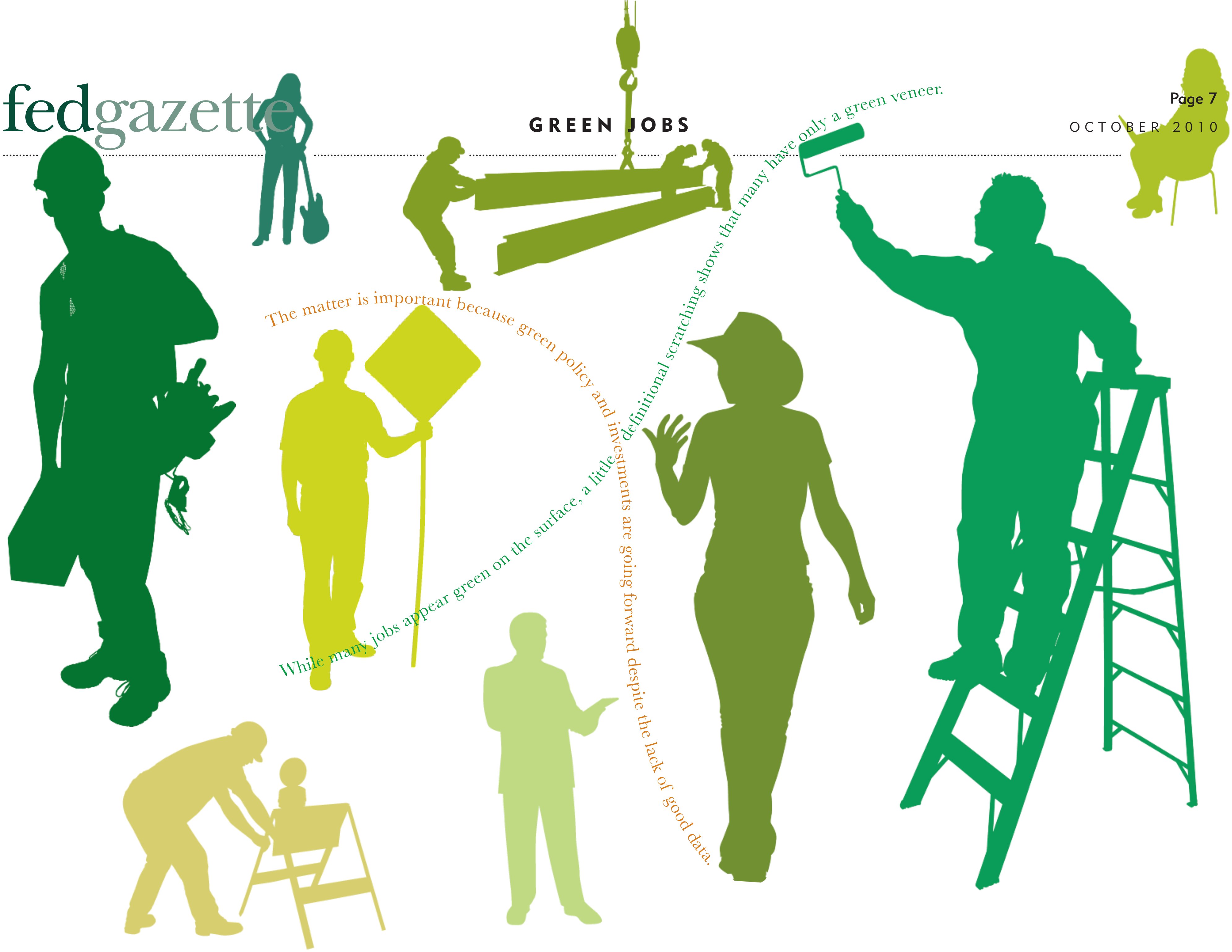
Ultimately, the hope is that the BLS will be able to track total employment and wages for businesses producing green goods and services, and to do so at both the industry and the occupation levels, for jobs like geothermal analyst and solar engineer. In other words, it hopes to track green jobs as accurately as positions in a specific industry or trade.

That's no small undertaking; it requires the agency to first settle on a definition of green. In studying the matter, the BLS states that "the common thread through the studies and discussions is that green jobs are jobs related to preserving or restoring the environment." The agency added that other categories like renewable energy, energy efficiency, pollution mitigation and natural resources conservation are areas "nearly universally cited" in any study or definition of green jobs.

As a general matter, there might not be much to quibble over. But once this definition is applied to the industrial and occupational world, it quickly turns into quicksand. "It's been an interesting exercise, to say the least," said Sommers. "People have different perspectives on this issue."

The central difficulty with defining green jobs is that the concept of green permeates many occupations in some form, and it doesn't fit neatly into the existing framework the government uses to measures jobs, said Steve Hine, research director at the Minnesota Labor Market Information Office. For example, the federal North American Industry Classification System (NAICS)—a go-to source for occupational data—is production oriented, while much of the green economy (like energy conservation and environmental preservation) is less concerned with the direct output of goods.

So the BLS (and some states studying the matter) has developed a hybrid methodology that combines output and process approaches—in other words, identifies firms that either produce green goods or services directly or use environmentally friendly processes and practices—and then counts associated jobs.



In a March issue of the *Federal Register*, the BLS published its definition and methodology and sought feedback. It received 156 comments "all over the map," said Sommers. Some suggested that the effort and the agency's definition were on target; others said the agency had no business undertaking such an amorphous study. Still others represented certain constituencies who said, "You should count our jobs as green."

Ultimately, the BLS took the feedback and revised its definition—though not a lot, according to Sommers. "It's fair to say that our overall approach is still there. … We're not attempting to get a consensus definition." Instead, the bureau wants a definition it can "operationalize" into a survey of employers, Sommers said.

In some cases, firms and employees covered by the BLS's definition are pretty obvious, like jobs in renewable energy production. "People agree that's pretty green," said Sommers. Then the BLS looks at the share of revenue that a firm (like a utility company) earns from renewable sources to get a proportional measure of jobs at that firm. "That's also pretty straightforward," she said.

However, in other cases, divining greenness is much more difficult. For example, is the wholesale or retail distribution of a green product—say, a pollution scrubber for power plants—a green job? Some certainly think so; without it, there is no net environmental benefit because the scrubber stays in the factory. But is it a uniquely green service?

"We decided not to count those jobs" as green, Sommers said, "because there was no particular benefit to the environment." That is, the transport itself was no different for the scrubber than if the firm was transporting barrels filled with oil.

The BLS nonetheless identified almost 600 green NAICS codes, and "not everyone is going to agree" on what did and did not make the list, Sommers said.

That might be putting it kindly. Some of the industries included are "absurd," said Hine. For example, small-arms ammunition manufacturing made the list because environmentally harmful lead is being increasingly phased out of bullets. Bags, pouches, packages and sheets made of plastic—yes, plastic—also made the list by virtue of resin recycling in the new product.

The haggling will continue for some time. The BLS doesn't expect to have its first estimates for green jobs nationwide until fiscal year 2012.

50 different answers?

The BLS is not the only dog in the green job hunt. States are doing their own homework on green jobs, funded mostly by federal grants in last year's stimulus bill. A total of 30 awards ranging from approximately $760,000 to $4 million were made to individual and groups of state workforce agencies. The Minnesota Department of Employment and Economic Development (DEED) received a $1.2 million stimulus grant to investigate green jobs and already has added a green category to its existing job vacancy survey.

The Montana Department of Labor and Industry (MDLI) is spearheading a seven-state research effort (including the Dakotas) to improve green jobs data gathering and analysis by state labor market information offices. The effort received a $3.8 million federal grant to develop a methodology for surveying firms to "close the green jobs information gap," according to a federal summary of state-based initiatives.

The Montana agency had been researching green jobs before it received the grant because various constituencies—policymakers, businesses, job seekers, media—had been asking about this topic, according to Barbara Wagner, senior economist with the Research and Analysis Bureau, a data-gathering arm of MDLI. Early efforts stemmed from the fact that Montana is home to one of the world's largest superfund sites—a shuttered asbestos plant in Libby—"and policymakers were interested in the types of jobs, the availability of workers and the training needed to adequately staff work to restore the superfund site," said Wagner via e-mail. That's when the proverbial green light went on, resulting in "even more questions about green jobs and acknowledgment of environmental costs."

In a July 2009 report, the agency encapsulated much of the methodological difficulties of green counting, applying seven different methodologies and estimating the number of green jobs between 4,000 and 22,000. More recently, the department completed a firm-level survey of green jobs and expects to make preliminary results available in October, according to Wagner. Other states in the consortium were in the last stages of data collection as of late summer, and final reports from all states are due at the end of May 2011, Wagner said.

Despite this and other research efforts, labor economists have a lot of work to do before they can confidently claim to have boxed in green jobs. To that end, federal and state investigations might have an equally important public relations function.

Said Hine, from LMI, "I think if there is a benefit [to the green job studies], it is to make it more apparent to people that there is not an easy-to-define green economy out there." f

Green: What role government?

Address market failure.
Hint: It's not jobs

Running against conventional wisdom, some labor economists say it's unlikely that green jobs are going to be the revolution that some want or believe them to be.

Big deal, right? In the scheme of things, estimates are just estimates—no one gains or loses a future job, right? Things will sort themselves out later. In the meantime, pay no attention to those economists behind the curtain.

Except that there is a consequence if public policy is taking its cue from conventional wisdom—as appears to be the case—and policymakers prefer to focus on green job creation and co-opting the larger goal of limiting greenhouse gas (GHG) emissions and particulate pollution created by burning fossil fuels.

Some criticize all environmental regulation as bad. But markets do fail, and government has a unique role in correcting market failure. In this case, market forces have led to an overreliance on fossil-fuel-based production, failing to properly price the particulate pollution and GHG emissions that result. The best role for policy, therefore, is helping markets recognize, price and manage the pollution and emission problems of a carbon-intensive economy.

Some might assume that myriad existing laws, policies and programs at all levels of government are doing just that. But policy design is critical, and economic theory suggests that most of the green-chasing that goes for public policy today will not create the desired outcomes for either the economy or the environment.

From an economics point of view, the task for policymakers is to find the right tool for the right job. In this case, the "job" or underlying problem is not employment-based, but environment-based: Along with well-recognized pollution effects from fossil fuels, the current scientific consensus says that atmospheric levels of carbon dioxide, methane and other GHGs are too high, are a risk to the global climate and need to be reduced.

High unemployment is certainly a problem, but it's a separate problem—one that is not well aligned with the goal of reducing GHG emissions. Even if it were, the strategy of subsidizing green firms and jobs in hopes of creating net growth rests on weak evidence. Past research (including by the Minneapolis Fed) has shown that incentive wars among local and state governments to attract or retain jobs—green or not—is a zero-sum game at best. Though the competition often forces other governments to participate (or become the prey), that doesn't rationalize the competition itself.

If the problem at hand is excessive GHG emissions and other pollution, policy should focus on effective strategies for reducing them. Government's track record at inducing jobs in the private market is spotty, and attempting to create policy that both reduces GHG emissions and creates jobs risks doing a poor job of both.

The task for policymakers is to find the right tool for the right job.

In terms of tools, economists prefer those that directly address a problem. In this case, the problem has to do with what economists call externalities—the harmful GHG emissions and pollution that are not included or captured in the price of fossil fuel. If society is getting too much of something it doesn't want, that means prices are too low; meanwhile, society bears these external costs in the form of environmental damage, health problems and the like.

So the right tool to reduce pollution and GHG emissions is to put a price on them, which will discourage their production as businesses and consumers avoid the higher cost of energy-intensive production techniques, running electronic gadgets all day long or driving five miles for a cup of coffee. Economists generally also prefer direct pricing—in this case, a tax on carbon emissions—over indirect pricing (like cap-and-trade permits) because the implementation of a tax is more straightforward and less prone to the political contortions that are invariably associated with cap-and-trade policies.

Other popular green policies—promoting energy efficiency or renewable energy use—are less efficient at reducing emissions because they suffer leakage. For example, greater energy efficiency is not always realized as lower carbon emissions; lower costs on your fuel bill might convince you to nudge up the thermostat a few degrees during the winter because of savings from energy efficiency.

Moving to economists' preferred policies to reduce GHG emissions and pollution is not presumed to be easy; indeed, setting the "right" price for these emissions is fraught with difficulty and comes loaded with transition costs as businesses and consumers adjust to new cost structures. The current tangle of green initiatives at all levels of government also is proof of society's dislike for recognizing these externality costs explicitly through taxation. It's often more palatable to promote well-intended policies that appear to avoid the trade-offs implied by higher taxes.

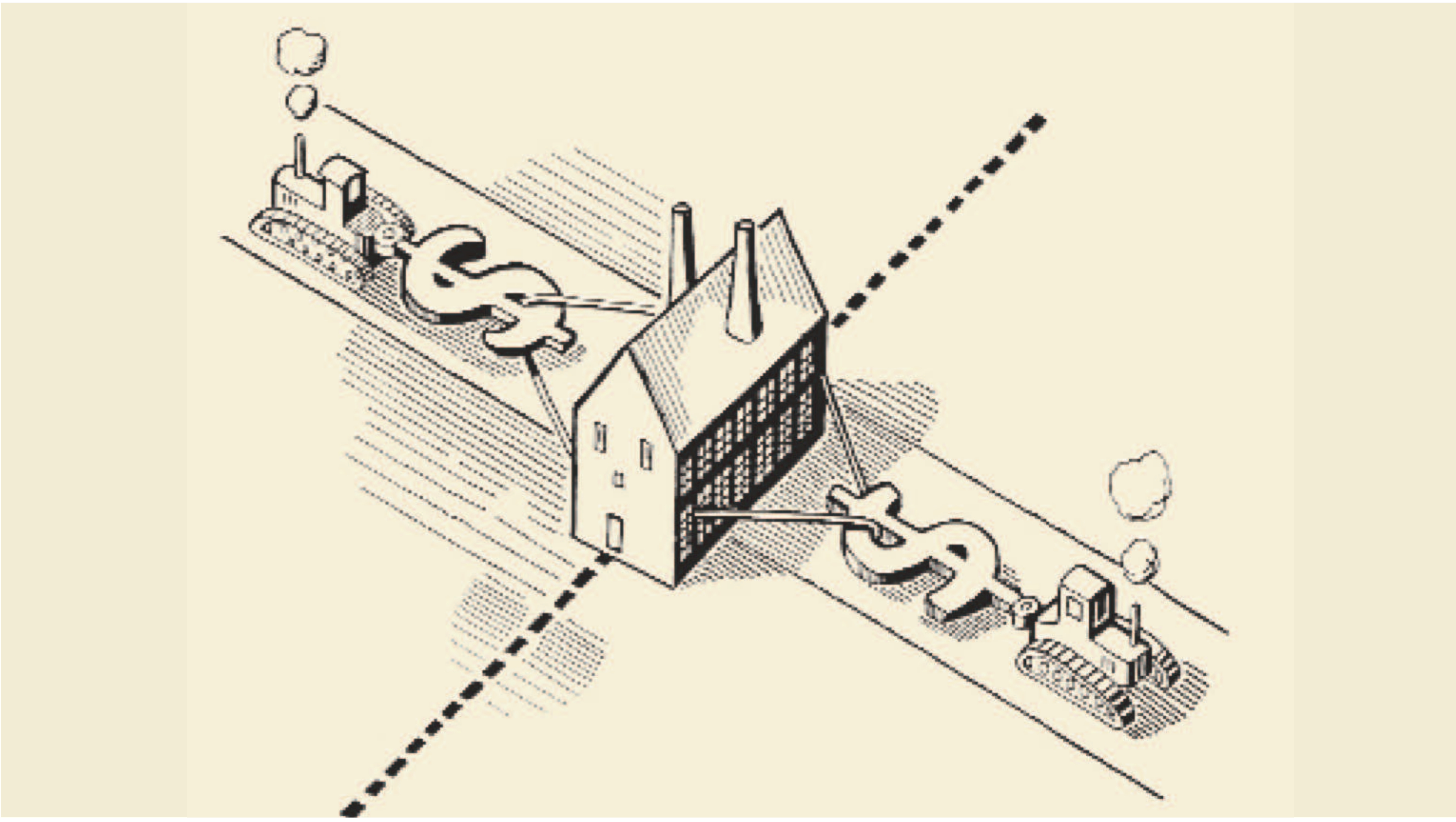
But good intentions—and the easier, more wide-ranging and incremental policies that have resulted—do not necessarily produce good outcomes and may ultimately be more harmful in ways not easily recognized. As currently designed, many environmental policies are doing double duty: attempting to reduce pollution and GHG emissions, and create jobs.

A full accounting suggests that such efforts tend not to yield many net jobs, nor do they achieve environmental goals that would be realized through a more direct policy approach. And all the while, significant financial and political capital is consumed avoiding hard policy choices and pursuing green jobs.

—Ronald A. Wirtz

Are economic development incentives doing their JOBZ?

An interview with university researchers looking at the popular Minnesota program



Minnesota's JOBZ program is among many state and local programs around the country that provide tax incentives for businesses. Laura Kalambokidis is an associate professor in the University of Minnesota's Applied Economics Department. A Minnesota native, she previously worked as a tax policy analyst for the U.S. Treasury before returning home to study community economic development. She and a former student, Tonya J. Hansen, now an assistant professor at Minnesota State University-Moorhead, recently published an article on the JOBZ program in the May 2010 issue of Economic Development Quarterly.

fedgazette: Your recent research focused on the economic effects of enterprise zones, particularly on Minnesota's JOBZ program. What initially interested you in looking into that program?

Laura Kalambokidis: My field is tax policy, but I also work on community economics and economic development. The enterprise zone idea—location-specific business tax incentives to try to spur economic development—is sort of the intersection between them. I wanted to start working in that area, and almost as soon as I got to the University of Minnesota in 2003, this program was proposed. People in Extension asked me, "Is this a good idea?" "What's going to happen?" "Should communities get involved in this program?" So I started to look into it and try to answer those questions.

Tonya J. Hansen: I came from South Dakota, where I grew up on a rural family farm. I witnessed the consequences of declining economic activity in rural areas. So when this topic came up while I was a Ph.D. student, it was one that was of interest to me personally. Ideally, we'd like to focus on a strategy that would be successful. Is this [program] successful? If not, what other types of economic development would provide opportunities to rural areas?

fedgazette: Could you explain what JOBZ is, and how it is supposed to work?

Kalambokidis: Well, it's in the class of location-specific business tax incentives like enterprise zones, where the idea is to reduce business taxes in a targeted location. So businesses move there because they're going to have reduced

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costs, and they're going to invest, and they're going to hire people, and you're going to get more economic activity in the area.

A couple of things make it different. It's longer term than many programs. It's 12 years worth of tax incentives or tax breaks. The tax incentive also is available in pretty much all of greater Minnesota. Even though the specific parcels where the incentive was supposed to be allowed were all chosen carefully, the law allowed for swapping of zone acreage, as long as there was no net increase in acreage. So, in effect, it meant that the tax incentive was available almost everywhere except the metro area.

Hansen: Another primary difference with JOBZ is the type of benefits available. A lot of state programs focus on either capital subsidization or labor subsidization. With JOBZ, provisions relate to both capital-intensive and labor-intensive businesses. Thus, firms of different types are able to receive a variety of subsidies.

Kalambokidis: There also is a jobs credit associated with this program, but what it really is, is a tax-free zone. When you enter into one of these business subsidy agreements with a locality, and the state approves it, then you get exemption from a number of state and local taxes for a number of years. So it's not like you invest $100,000 and you get 3 percent of that back. It's that the locality has agreed that $100,000 worth of capital investment plus 85 jobs means you're qualified and you're going to get exemption from the corporate income tax, property tax and so on.

fedgazette: How well did the program work, in terms of job growth?

Kalambokidis: Well, let me be clear on what we did. What you probably would like to know is a different thing [laughs]. We did not have access to data that would have allowed us to find out how many jobs were created as a result of the program. We did have access to these business subsidy agreements and the reports by businesses on how many people were hired, what the wages were, that kind of thing.

So we started with these business-reported numbers of how many people they claimed they hired as a result of the JOBZ program. Then we wanted to find out whether those JOBZ-related jobs had an impact on important economic development variables at the county level.

Hansen: Changes in employment, changes in population, changes in income per capita—those were, in a sense, our economic growth variables. In addition to looking at capital investment and job creation as independent variables, we also included a host of other variables that were of a demographic nature, or infrastructure nature, to characterize the climate for business in that area.

fedgazette: I also noticed that among your control variables was whether there was a highway going through the town, for example. So could you tease out how important they were relative to some other things like, say, education?

Kalambokidis: In this literature, you want to control for the other things that could have made a place attractive to a business. For some businesses, it was a highly educated workforce; for some businesses, it's transportation infrastructure, things like that.

fedgazette: What did you find in your analysis?

Hansen: Our initial analysis was at the county level. In terms of the first three years of activity, we found little impact of the JOBZ program on county-level economic growth—very few of the JOBZ-related variables were statistically significant. The exception was a positive association between JOBZ-related employment and population growth, but that impact was economically small.

So that led the two of us to think maybe that the county lens was so large that JOBZ-related activity didn't appear to be significant, [and] we should look at a smaller [city or census tract] level to consider whether JOBZ-related variables are significant.

Kalambokidis: It would be consistent with what we found if the JOBZ-related jobs and investment didn't influence those economic growth variables. But it also could have been the case that JOBZ did influence one of those variables in a positive way, but something else in the county brought it down, so that on net it got washed out. We don't know whether that happened, but the next level of analysis is to rule that out—or in.

The approach is to give the data and the program every opportunity possible to show us what happened. So we have to tease down to another level and try other things. But our analysis didn't show on net that these tax-incentive-related jobs significantly influenced the county economic growth variables.

fedgazette: Is that fairly consistent with what has been found about enterprise zone programs in other states or municipalities?

Laura Kalambokidis

If you look at the big body of work on enterprise zones, the evidence is really mixed. Some studies find an impact, some studies find a small impact, some studies find no impact under certain circumstances, some find it's positive for a while, negative later. It's all over the map, but you can't really point to a consensus that these things have a positive impact.

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Hansen: There are also a lot of mixed results *within* individual programs. For instance, one program at the state level would show positive effects or negative effects, but at the local level (within particular cities or counties) would show just the opposite effect. It is common to see different effects across space or size and also across time.

Kalambokidis: So in a general sense, this program and our study are consistent with what others have found. I think if we had found some dramatic positive effect, this study would look like an outlier to that literature.

fedgazette: Upon first examination of this program, one might think that if a business was offered tax cuts to hire people, then it would probably hire some people. Could you explain why those effects might not be so apparent?

Kalambokidis: Well, suppose you've got a business, and in one year it's got 100 employees. And you look at it the next year, and it's got 200 employees. In the meantime, it got a tax benefit. Say the tax benefit was tied to the number of employees that got hired, so maybe it lowered the cost per worker enough that they hired more workers. Or it could be that their production model was to hire those 100 workers no matter what, and, son of a gun, they got a tax benefit as well. And so just by looking at the before and after, you don't know if the additional hiring is a consequence of the tax benefit or not.

Now, this "but for" question—What would have happened but for the incentive?—is the holy grail of research on economic development and location-specific business tax incentives. And the reason it's so hard is because you need a group of communities that didn't get the tax incentive, but are just enough like the communities that got the tax incentive that you can't argue that there's some systematic difference that caused a difference in outcomes. Then if you've got that control group, you can tease out statistically the impact of the tax incentive.

The problem is trying to find that control group. Because in any state, you have a hard time finding a group of communities that's just like the ones that got treated. With enterprise zones, it's because the zone communities are very specific geographic places and your control communities are something completely different. But even if you have a bunch of communities that you could use as a control group, you don't necessarily have the level of data on them that you do on the treatment group. The businesses and communities that got the tax incentive had to go through some sort of an application process. In this case, businesses go through an application process, and we gathered the data on them, but we don't have the data on businesses that are just like those businesses but didn't get the tax incentive.

Hansen: From a researcher's perspective, the ideal situation would have been that businesses in greater Minnesota would have all applied and filled out business subsidy agreements, but not have known at the time they completed them whether they were going to be in JOBZ or not. If some were chosen and others were not, that would be a much easier study.

Kalambokidis: [Laughs] It wouldn't have been great policy necessarily!

fedgazette: Is the way you set up your analysis by looking at other climate variables a way of compensating for the problem that you just don't have a counterexample?

Kalambokidis: I wouldn't say compensating. It's a preliminary step. We're still looking at the possibility of finding a "control group" and firms that we could follow over time. But no, our study is really looking at correlation, not necessarily causation, although we're controlling for as many things as we can. We're not really getting to the "but for" question.

Hansen: You have to work with the data that you have access to. It's still an interesting question in Minnesota regardless of whether the data were messy or whether they were easy to acquire. And it's still important to the taxpayers of Minnesota to know whether this program was a good investment or not.

fedgazette: If it's hard to point to big successes from these programs, why are they so popular?

Hansen: I would say the general reason they are popular is that communities fear being left behind if a neighboring community (which is perceived as competition), is offering the program. Communities will offer a similar set of incentives, irrespective of whether they have shown success.

A locality's view that the strongest competition for employment opportunities is its neighboring county or state is biasing the construction of economic development programs, in my opinion. Investments that strengthen the ability of a location and its workforce to be productive may offer more opportunities for long-term economic growth than simply adding an incentive that your neighbor has.

I can match incentive by incentive for nearly all of the 50 states. Has any state gained any leverage in the process? Probably not.

Hansen

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Kalambokidis: One of the reasons they're popular is that local community development professionals want to have tools and subsidies and incentives available to them when they have that negotiation with a business to try to bring it in or have it expand. In this case, it was mostly state revenue that was being given up. If the states can offer the locality the opportunity to offer a business exemption from state taxes, the locality's going to be happy to have that tool. … There's not a lot of downside. [In some cases they might] potentially forgo local property taxes. But anecdotally, a lot of these parcels that were named as subzones were undeveloped parcels. And so they weren't generating property tax revenue anyway.

Hansen: From the cost-benefit perspective, the costs were next to nothing for some local communities. For the benefits, anything greater than nothing was considered a success from their viewpoint.

fedgazette: What were the factors you found that were connected with economic growth measures?

Hansen: Education, age of the population and preexisting unemployment conditions in the county.

Kalambokidis

It argues for the quality of the workforce or some characteristics of the workforce being significant for county-level economic growth over that period. Those are the ones that turned out to be significant. We thought some of the others might be important, like infrastructure and so on. But we both thought it was noteworthy that it was labor that mattered here more than some other things.

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fedgazette: What, if anything, does that imply about the types of economic development policies that might be effective?

Kalambokidis: If there were some sort of magic formula, we'd be done with our work here [laughs]. But what I can say is that the role of the state really should be to provide those services and make those investments that make the state a place where people really want to live and work, and businesses can easily start up and thrive.

And so you're talking about workforce variables, education all the way from early childhood to lifetime education and workforce retraining. You're talking about physical infrastructure and transportation and technology. You're talking about higher education. You're talking about natural resource management, cultural amenities and arts amenities. These are all things that the state invests in and that help a business start up and be able to attract employees and be a place that can thrive.

fedgazette: Thank you.

—Joe Mahon

State-owned bank shines in the spotlight

An interview with Bank of North Dakota president Eric Hardmeyer

PHOTOGRAPHY BY SCOTT BERGE

Eric Hardmeyer was named president of the Bank of North Dakota in 2001. A native of Mott, N.D., he began his 25 years of service with BND as a loan officer.

The Bank of North Dakota operates primarily through lending partnerships with other financial institutions in the state. It opened in 1919 with $2 million in capital and today has more than $270 million in capital. The state of North Dakota began using bank profits in 1945 when money was first transferred into the general fund, and such transfers have become the norm to augment state revenues.

BND reported record growth and profits in 2009. Net earnings increased to $58 million, and total bank assets grew to $3.9 billion.

BND is overseen by the North Dakota Industrial Commission (of which the governor is chair) as well as an advisory board of directors, which reviews BND operations and makes recommendations to the Industrial Commission concerning management, services, policies and procedures.

For more information, go to www.banknd.gov.

fedgazette: The nation's banking crisis and the recession have brought the Bank of North Dakota into the spotlight. Media reports suggest that numerous states are looking at BND as a possible model for their own state. Roughly speaking, how many official and unofficial queries have you fielded?

Hardmeyer: I would say anywhere from 15 to 25 in terms of states, but we've had interest from all over the globe, including Germany, Japan and Spain.

fedgazette: We didn't realize you were receiving foreign inquiries too. What's been the nature of their interest?

Hardmeyer: Of course, they're looking at the United States' response to the recession and to the various state economies around the country. North Dakota is one of those states that have been particularly stellar in light of the national economic issues. They've also looked a little deeper to see what is unique about North Dakota and found that we have a state-owned bank, and so that has led to these inquiries and interest.

fedgazette: And that's certainly why you've received interest from various states. How would you characterize the seriousness of these state queries?

Hardmeyer: I would say that there are anywhere from three to five states that are in various stages of investigation, perhaps putting together contemplative legislation to look at the idea. The most work that I've seen done on the subject is by the state of Vermont. They've done a pretty interesting study on this state-owned bank and the impact that a similar bank would have on Vermont.

fedgazette: Other states that are considering such a bank must ask you about the reaction of private lenders to having a state-owned player in the field. How does the Bank of North Dakota ensure that it doesn't squeeze out profit opportunities for private lenders?

Hardmeyer: We're very sensitive to that issue. If you go back to the operating policies that were established when the bank was founded, it was always the imperative that the Bank of North Dakota do nothing harmful to the private sector banks and that it is here to partner rather than to compete with them. We get that; we understand that. And we are constantly looking to ensure that we have a balance between meeting our mission and not infringing upon the opportunities of the private sector. It's one of those things that are just ingrained in how we do business.

We have a very solid relationship with both of the banking associations in North Dakota—the North Dakota Bankers Association and the Independent Community Banks of North Dakota. We serve on their boards in different capacities, and I think you would find from their executives that the relationship between the Bank of North Dakota and the community banks and system banks here is solid. We know our role and play it to the best of our abilities.

One thing that people need to understand about the bank is that in addition to the mission-critical things that we do, we're also a banker's bank. So, to access our programs, you would have to work through a local originating bank. There is very little opportunity [for a consumer] to come directly to the Bank of North Dakota for any loan activity. The area where we did compete is student loans. However, beginning July 1, 2010, the bank-delivered student loan program known as the FFELP [Federal Family Education Loan Program] will be eliminated and run by the federal government. And even in that area, we had formed alliances with banks across the state to work with them.

North Dakota banks understand that we really are not set up to compete with them and that our programs are delivered through them. We also provide great value to banks in terms of providing liquidity when they have needs; or, if they have excess liquidity, we are a market for fed funds. We do a lot of typical things that you would get from a correspondent bank.

fedgazette: Let's take a step back for a moment. What's the main advantage of having a state-owned bank? Put another way—what is the credit market gap that such a bank fills?

Hardmeyer: We deliver a number of economic development programs, and I think a lot of other states may do things similar to what we do, but through other vehicles like an economic development corporation or some sort of authority. We have a strong and growing deposit base that we can fund those things directly from. Consequently, we did not have a funding issue that some state authorities had when the capital markets seized up.

It's always about looking at how we can fit into the state's strategy of diversifying and generating new wealth for the state and expanding what we have. We work closely with the North Dakota Department of Commerce, governor's office, the agriculture commissioner's office, the economic development community and the banking community to see what we can do to help spur economic development. We believe that it all begins locally. It shouldn't be driven from the top down; it should be driven from the bottom up. We're there to support those functions, not to lead them.

The questions that I ask a state when it queries about BND is—what do you want a state-owned bank to be? What do you want it to do? Do you want it to be a small-business lender? Some say that they're having a tremendous problem with their budget and they're looking for ways to plug some holes, and they believe a state-owned bank could help alleviate part of the revenue problem given the revenue that we could generate. One of the other major themes is the one that you hit on with your question about the recession—there has been a lot of discussion of credit drying up for business owners. In one case, that

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is why they're interested in a state-owned bank. They want to ensure that their business community has access to credit and can direct their state revenue to make it available to meet that end.

fedgazette: Getting back to something you addressed earlier: There seems to be some belief in a causal link between the presence of a state-owned bank and the North Dakota economy, which has been remarkably strong during the recession. What's your take on that link?

Hardmeyer: I have tended to downplay that. The economy here in North Dakota has benefited tremendously from the energy resources that we have, certainly oil, natural gas, coal and wind energy—all things that are needed and are in great demand around the country, and we have an abundance of those. We also have a fairly diversified economy; agriculture has certainly been good the last three or four years. We're playing to our natural strengths here, agriculture and energy.

BND has programs that have benefited business owners and farmers/ranchers. And we've certainly aided the banking community in times of stress. We have 100 banks in the state, with a population of 650,000. One of the conclusions of the Vermont study was that the Bank of North Dakota helps strengthen and makes for a vibrant community bank network, and I would concur with that.

I think that we've played a significant role in the state's recent success, but to quantify a role and tell you what that is would be difficult. But certainly to lay the success of the state's economy at our feet wouldn't be appropriate either. We're a player.

fedgazette: North Dakota has a long political history that mixes populist radicalism with strong conservatism. In certain respects, it is surprising that a state like North Dakota has an institution that many brand as socialist, especially in 2010. How do people square this seeming dichotomy? Do you think that a state-owned bank is something that North Dakota would create today?

Hardmeyer: That's true, but of course you have to go back 91 years or so when the bank was created and look at it from that point of view. The Progressive movement was sweeping the country; there was an angry agrarian movement that believed that most of the decisions being made about issues important to North Dakota were made for us, and not by us.

What's interesting to me is that some of those same kinds of issues are popping up again. In 1917 and 1918, when the bank was conceived, World War I was ending, there was a flu epidemic and there was a moderate recession followed by a much tougher one in 1920. You see some parallels between what's happening in the country today versus back then. There was a lot of anger and fear. And then you square that up with today and you ask, could it happen today, in this state? I would say probably not because our political electorate is at a different point in their social philosophy. But what is very interesting when you go back and look at the original operating policies, the one thing the creators of BND understood is that it was important to fix in the minds of the citizens of North Dakota what this institution was and what it was going to do.

I think North Dakotans have realized over the bank's history that there is utility and benefits that this bank can provide, whether it's financing economic development opportunities or its ability to assist in dealing with natural disasters or other critical needs. For example, we were front and center after the Grand Forks flood of 1996–97 and have been an important player in addressing disasters that affect the agricultural community. Another example is the unique financing needs brought on by the energy boom going on in western North Dakota. So it's finding the gaps and filling them, and I think that North Dakotans realize that we can move nimbly and quickly to help fill those gaps and that we are willing to do that.

fedgazette: How has the Bank of North Dakota fared during the recent financial crisis and recession? How does the bank ensure that it doesn't get caught up in situations that put it at risk? Is the bank guaranteed by the state of North Dakota? That is, can it fail? Is it too big or too important or too political to fail?

Hardmeyer: The bank is very sound financially. Our loan portfolio is a reflection of what's happening statewide. Overall, the health is good, but we are starting to see some things trickle into the statewide numbers. The national recession is having an impact, and you would expect that to happen as you see this thing play out. Our economy is stronger than most right now, and the banking community by and large is still solid.

If you look at the banking community, you'll see that there are some struggles there, but not to the extent that you've seen it in other states. The Bank of North Dakota's exposure outside of the state is limited, which is probably good right now. Because of the unique nature of this institution's mission, there will always be an element of risk that the private sector banks don't have. However, our capital and reserve for loan losses are strong, and our loan portfolio is in good shape, so I don't see that question as a critical issue.

fedgazette: When it comes to economic development needs in North Dakota, one issue that gets a lot of attention is the need for housing in western North Dakota, specifically in those communities affected by the increase in oil drilling. How is the Bank of North Dakota involved in trying to address that need?

Hardmeyer: We've recently met with officials from the Williston area where the housing problems seem to be the most acute. They're struggling to keep ahead of their housing needs, and they're really looking at the long-term implications for their community—what kind of housing stock they need and keeping in mind the history of previous boom-and-bust cycles. The local city officials and community bankers have gone at this with a very deliberate approach. Some in the community might argue too conservatively, but I wouldn't.

We've worked with them to figure out ways in which the city can encourage development of single-family residential infrastructure. They want to work with the development community, whether it's in-state developers or others from outside North Dakota, to put a package together that would [encourage] them to come and start building some housing stock. We've been working with the city of Williston to reduce their exposure to infrastructure needs—street, sewer, water lines, lighting, that kind of thing.

Now, there are still needs in other areas, whether it's Stanley or Tioga or other high-impact areas with the central theme being: How permanent is this growth? You don't want to overbuild for a temporary situation. Is it a seven- or a 10-year play, or is it a two-year play? What happens if oil drops to 30 [dollars per barrel]? There's just a lot of caution out there about not repeating the mistakes that we made in the 1980s.

As local and state officials examine the issue, they realize that there is going to be a permanent need after this exploration phase is over. Oil wells will need to be serviced, and management of production will continue. Because of this, there is going to be some permanency to the labor force when the exploration phase is over. And that's really the question—how do they build for that phase? Along with BND and other state agencies, the expectation is that they will also seek legislative assistance at the next session. Their needs are tremendous, particularly with regard to roads, housing and water issues.

fedgazette: Nice problems to have these days.

Hardmeyer: That's right, and it's interesting because I have been in this business for 25 years now, and I've watched the economy throughout the 1980s and 1990s struggle in a lot of these areas. In

visiting with these developers, their issues are 180 degrees different from what they were 10 to 15 years ago. That feeling of desperation that we all seemed to feel when it came to rural North Dakota is gone and replaced with, "How do we keep up with this?"

I was just in China a couple of months ago with a delegation looking at a coal-to-liquids facility that they've built in inner Mongolia. That technology can play a big part in North Dakota's economy in future years. With North Dakota's 800-year supply of coal, the potential for the state now in regard to new coal technology is enormous. These are exciting times to be in North Dakota.

fedgazette: Thank you, Mr. Hardmeyer.

—David Fettig

De novo banks: A failure of youth?

District's young banks share unique features

By DANIEL ROZYCKI
Associate Economist

Dedicated industry watchers may have noticed something oddly similar about three Twin Cities area banks that failed in the past year. Riverview Community Bank in Otsego, Brickwell Community Bank in Woodbury and Pinehurst Bank in St. Paul were all shuttered before reaching their seventh birthdays. (The average bank in the district has been operating for seven decades.) In fact, it might not be just a quirky coincidence. Last year, the Federal Deposit Insurance Corp. released a letter voicing its concerns that depository institutions less than seven years old were apparently failing with greater frequency than others.

In banking, as in other business sectors, youth can be both a buoy and an anchor. Newly chartered banks—also called *de novo* banks—typically begin life with significant, uninvested capital to put to use in underserved markets and financial niches. But they can struggle to gain the necessary market depth, traction and consumer loyalty to survive tough economic times. As bankers nationwide have learned, operating losses can outlast investor funds, and young banks can be especially vulnerable.

Is this true for Ninth District banks? A *fedgazette* data review found support for the phenomenon and some unique features of the district's de novo banks.

The failure of youth

To begin with, the district has a smaller portion of young banks than the nation as a whole. The exception is in the Twin Cities, the district hatchery for young banks (see Chart 1) and where banks skew younger than the national total. Past *fedgazette* research found that the Twin Cities ranked highly among all metro areas in the country for the number of new banks chartered during the opening years of the decade (see Charts 2 and 3).

As it turns out, those newly minted banks ended up failing more frequently than other, older banks. Almost half of all the banks that failed since the beginning of 2008 through the second quarter of 2010 in the Twin Cities, accounting for 21 percent of failed banks in the Ninth District, were less than seven years old. That compares with 17 percent of failed banks nationwide. But before you panic about the prospects of your local young bank, it pays to know that that there were only six bank failures in the Twin Cities and 14 failures in the district.

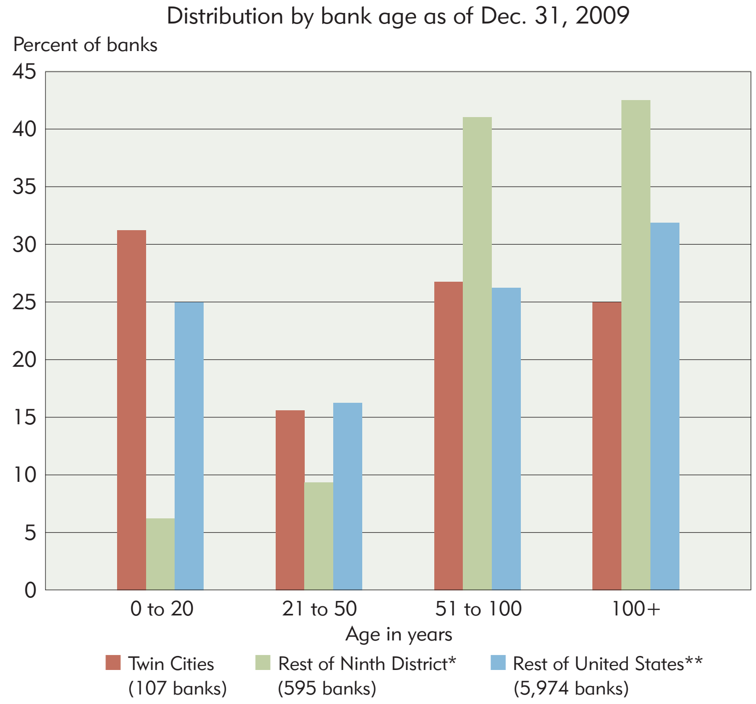
What makes young banks more likely to fail? Research generally points to three major issues that take time to resolve as de novo banks establish their business: an inability to generate earnings, excessive risk in lending and volatile funding prior to the buildup of stable deposits.

And, in fact, all of these factors are present among the failed de novo banks in the Ninth District. Other young banks in the district look fairly similar to the mature population in terms of their capital and the rate of noncurrent loans (loans that are past due by 90 days or more) (see Chart 4).

However, they differ in the composition of their loan portfolios; district

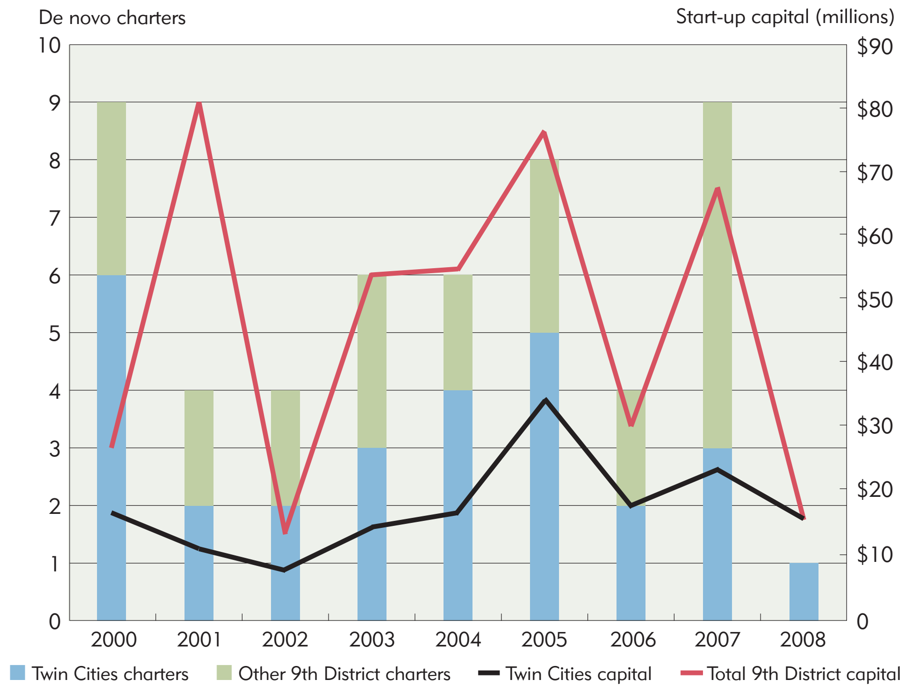
Continued on page 15

CHART 1 **Bank age skews young in the Twin Cities**
Distribution by bank age as of Dec. 31, 2009



*Excludes Twin Cities
**Excludes Ninth District
Source: Federal Reserve

CHART 2 **Twin Cities area comprises large share of district de novo banks**
New bank charters and investment



Source: Federal Reserve

Taking root

Organic farming continues to grow in the Ninth District

By ALISON SEXTON
Research Assistant

When you think of organic agriculture, you probably imagine yourself eating leafy greens and other vegetables you buy for a salad. For that reason, you might not think that Ninth District states, which specialize in major commodity crops and livestock, have a large role in organic production.

But, in fact, the Ninth District is a major organic producer, and its organic footprint continues to expand as more farms undergo the certification process that ensures that their practices exclude or strictly limit the use of synthetic fertilizers and pesticides, plant growth regulators, livestock antibiotics, food additives and genetically modified organisms.

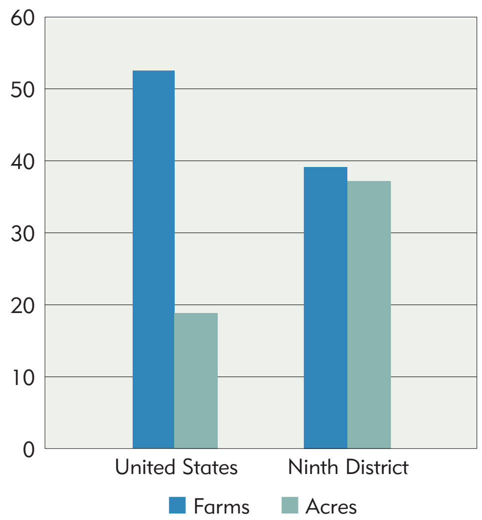
Although it remains a small component of total U.S. agriculture (0.6 percent in 2008), organic farming has been expanding both nationwide and in Ninth District states. For example, the number of organic farms in district states increased by almost 40 percent from 2005 to 2008, slightly lower than the 52 percent growth across the country, according to the most recent data from the U.S. Department of Agriculture (USDA) (see Chart 1).

Wisconsin was the only district state to see higher growth (75 percent, or 436 farms) than the national average (see Chart 2). In fact, Wisconsin ranks in the top five states for the number of farms producing organic dairy, beef, poultry, other livestock, crops, vegetables and melons. Wisconsin's organic farms are diverse in both size and crop, but they are on average smaller than similar farms in other states, which likely contributes to its larger numbers.

Conversely, the rate of acreage certified as organic grew faster in district states during this period—37 percent compared with 19 percent nationwide (see Chart 3). In terms of total organic acreage, all five district states ranked in the top 11 states in 2008. Growth was stronger in pastureland and rangeland (63 percent) than in cropland (28 percent), but all district states rank high in both categories.

CHART 1 **Organic growth**

Percentage change in organic farms and acreage, 2005 to 2008



Source: U.S. Department of Agriculture

Districtwide acreage growth was largely driven by two states. Total organic acreage in South Dakota almost tripled, and roughly doubled in Wisconsin. South Dakota also saw organic pastureland and rangeland increase ninefold, or 100,000 acres, during this three-year period. This growth is perhaps due in part to the addition of about 3,300 organic beef cows (a 500 percent increase) over the same period.

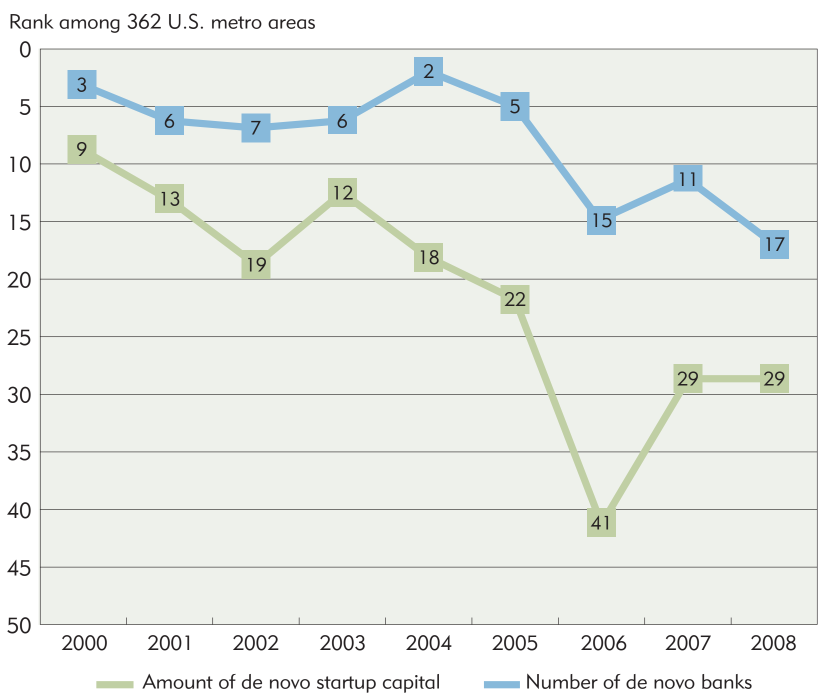
Montana is the district outlier, having negative growth both in the number of certified organic farms and in acres. These data are based on information from USDA-accredited state and private organic certifiers. But certifications by the Montana Department of Agriculture—the state certifier—actually increased by 44 farms (67 percent) between 2005 and 2008.

The Montana department also suggested that the decrease in certified acres may have resulted from a number of farms dropping certified acres never

Continued on page 16

CHART 3 **Twin Cities area ranks high, but falling**

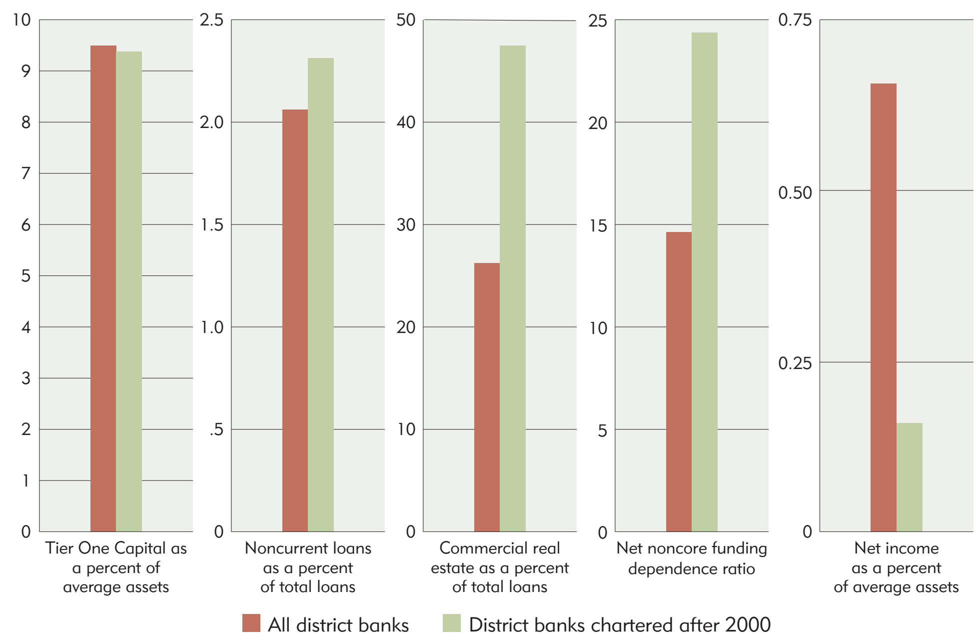
National rank, annual bank charters and new investment*



*There were no new bank charters in the Twin Cities during 2009.
Source: Federal Reserve

CHART 4 **De novo banks have more CRE loans and lower net income**

Financial comparisons of de novo banks and all district banks
Median ratios as of June 30, 2010



Source: Federal Reserve

De novo banks from page 14

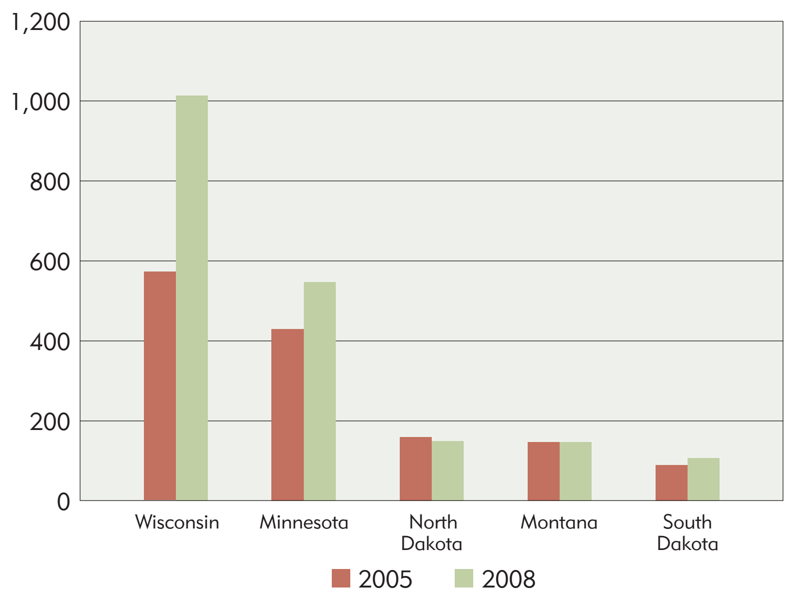
concentration in comparatively risky commercial real estate. Moreover, de novo banks rely to a greater extent on more volatile sources of funding (so-called noncore funds like jumbo certificates of deposit and brokered deposits rather than traditional savings). And unlike the mature banks, the average de novo bank earns a very small profit.

As long as capital remains strong and loans continue to perform, young banks can remain stable and healthy. But these basic measures reveal that riskier loans, less reliable funding and lower income continue to challenge de novo banks. f

Taking root from page 15

CHART 2 **Organic farm growth modest, save for Wisconsin**

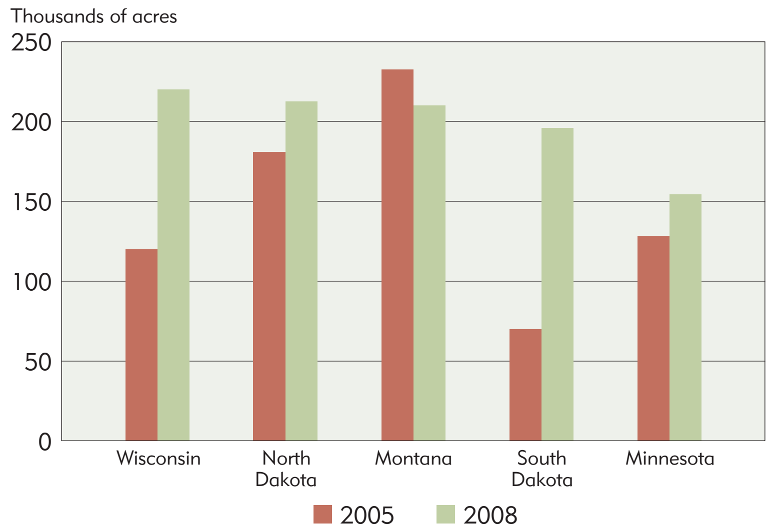
Organic farms



Source: U.S. Department of Agriculture

CHART 3 **Organic acreage up, especially in Wisconsin and South Dakota**

Organic acreage



Source: U.S. Department of Agriculture

put into use. For example, one operation certified 36,000 acres of organic pastureland for several years in case it ever sold some of its herd, but eventually dropped the organic designation. The drop represented a significant decrease in the total certified acreage, but did not affect production.

The new bread and feed basket

The district's biggest organic footprint is in grains, producing 30 percent of the U.S. total (see Chart 4). Between 2005 and 2008, the district increased production of almost all grain crops with the front-runner being corn. Acreage increased by 61 percent, and each district state saw an increase in acres of at least 19 percent.

Multiple drivers apparently are behind this trend in organic corn and other grains. The USDA reported, for example, that breads and grain products were a leader in organic food and beverage introductions.

But probably more relevant, especially for district states, is a growing organic livestock market. Demand for organic livestock and poultry has been increasing in the country as a whole, and also in the district. These animals require organic feed in order to be certified USDA organic, and corn often makes up a majority of livestock diets. District states already specialize in feed production for conventional uses, and it makes sense that they would play a prominent role in the growing organic feed market.

From a fairly small base in 2005, the organic livestock market has witnessed robust growth. Organic cows, pigs and sheep increased by 142 percent in the United States between 2005 and 2008, while chickens and other poultry increased by a comparatively paltry 13 percent. Trends were somewhat the opposite in the district, with chickens and poultry seeing very strong growth (147 percent), while organic cows, pigs and sheep grew by 72 percent.

Wisconsin is the district's clear leader in both organic livestock categories, ranking second nationally in livestock and fifth in poultry in 2008. Minnesota is the next-largest producer in the district, but has only a fraction of the animals that Wisconsin has in both categories.

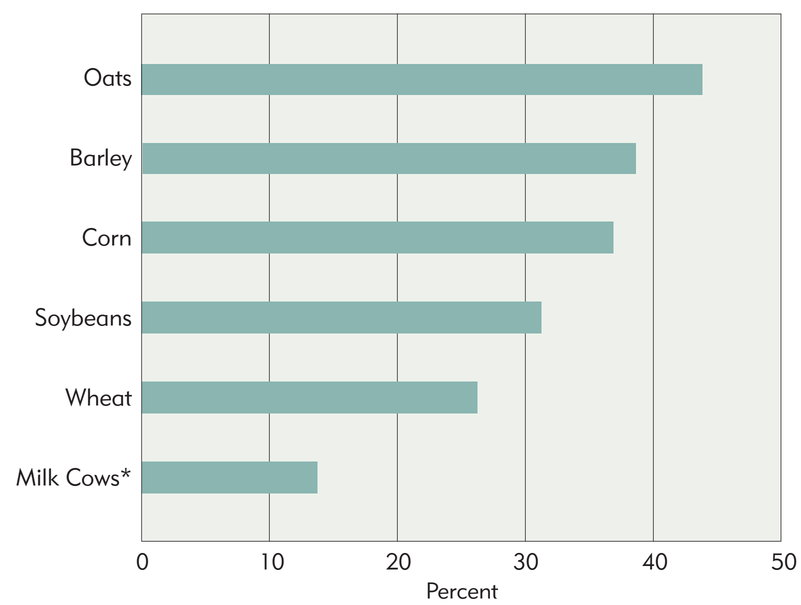
Overall, the outlook for the organic food industry is positive, but there are challenges, including a shaky economy that has pushed some consumers to cheaper foodstuffs. Organics are also battling increased competition from foods labeled "natural"—a less expensive and less regulated classification.

According to a recent *Nutrition Business Journal* article, price inflation in the organic industry is expected to lag that in the conventional industry (where prices have already started to increase). This will cause the price premiums for organics to shrink and should help bring back consumers lost to higher prices during the recession.

The outlook for organic livestock is also positive, as demand for organic dairy and meat is expected to increase. In fact, the *Nutrition Business Journal* predicts that the meat, poultry and seafood category will be a "bright spot" for organics in 2010. f

CHART 4 **Percent of U.S. organic acreage in district states**

2008

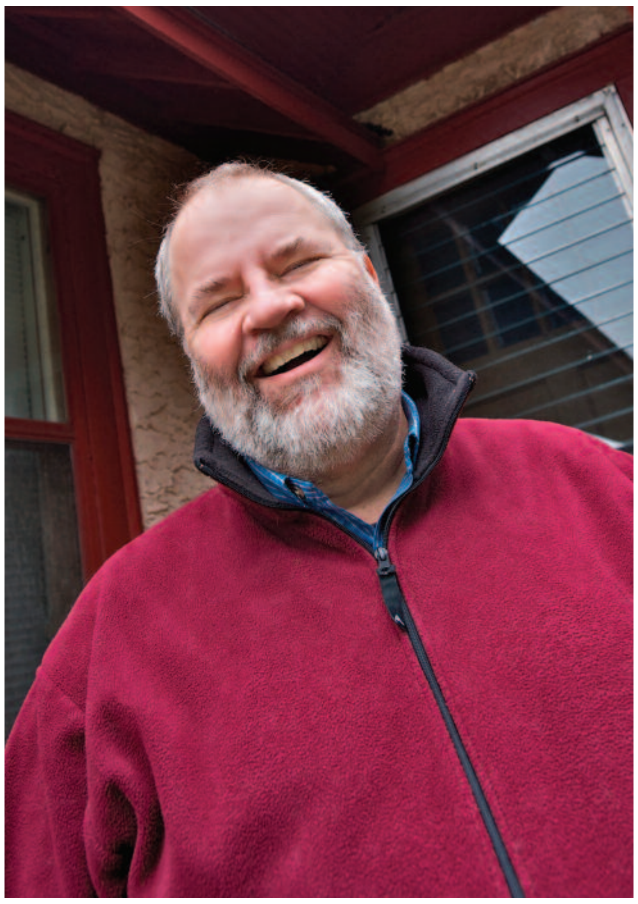


*Percent of organically fed cows
Source: U.S. Department of Agriculture

Small talk: An interview with three small-town advocates

Challenges and opportunities abound in rural communities

Jane Leonard, former president of Minnesota Rural Partners



Dave Engstrom, executive director of the Minnesota Association of Small Cities

Bart Finzel, Center for Small Towns interim director

PHOTOGRAPHS BY MARC NORBERG

This summer, the Center for Small Towns at the University of Minnesota-Morris hosted a two-day symposium regarding the health and outlook of small towns. Afterward, the fedgazette *took the opportunity to organize a round-robin interview via e-mail with three small-town and rural advocates: Bart Finzel, CST interim director; Dave Engstrom, executive director of the Minnesota Association of Small Cities; and Jane Leonard, former president of Minnesota Rural Partners and now manager of the leadership and community engagement team at the Bush Foundation.*

fedgazette: First, how did small towns fare during the recession?

Jane Leonard: Small towns and rural areas did better than urban and exurban areas in the first year of the recession, due primarily to strong commodity prices for farmers, which in turn contributed to small-town Main Street doing better relative to its urban counterparts.

Small towns were not as affected by the housing downturns and contractions in finance and banking, in part because they weren't as exposed as urban areas in the residential housing and commercial real estate markets. However, the length of the current recession is now making its mark on rural areas and small towns because of job losses and the resulting belt-tightening by consumers.

Dave Engstrom: I agree with Jane that small towns have done better than urban areas in general. Small cities in the lakes region and those with tourist economies have done fairly well. These cities tend to have higher-than-average property tax capacities because they have higher-end homes and thriving commercial districts.

However, as the recession has lingered, some towns seem to have been hit harder by the recession, like those with poor property tax capacity and a dependence on [declining] local government aid from the state. It seems to be almost a survival of the fittest.

Bart Finzel: I agree that, in general, small towns initially weathered the recession better than most urban areas. They haven't been immune, however. In addition to what's been mentioned, I would add the decrease in credit. Many small-town banks sought higher returns by investing in the speculative run-up in commercial real estate in urban areas. This has left them weakened and less likely to lend to any but their most creditworthy customers.

fedgazette: Does population size matter to the livability or survivability of a small town? If so, what is a critical mass?

Finzel: I believe viable small towns can come in all sizes. More important than numbers of residents is the role the small town serves in the region. Viable small towns must be gathering places. It may be that people gather because the town provides essential services—financial, legal, medical, recreational, retail. In such instances, what is most important is the population these services can be expected to provide for.

However, small towns need not be only about service provision. A small town may be viable if it is the central gathering place, [such as] for a local religious community or a local school. Of course, this implies that small-town residents depend upon larger population centers to fill in the gaps in needed services, but all communities rely upon others to

Continued on page 18

Small talk from page 17

Finzel: Farm consolidation and reduced diversity of farm outputs—some resulting from economies of scale and others from farm policy—have contributed greatly to the population loss.

Leonard: How young people are regarded by a community is key. If enough people hold a mindset that young people don't have a future in their small town and that belief is instilled from an early age, then the town is on a downward spiral.

some degree. Is St. Cloud not viable because it lacks the Twins? Is a small town not viable because it lacks a mall? I don't think so.

Engstrom: I agree with Bart that there are success stories in all sizes of cities. There are 854 cities in Minnesota; about 100 of them have populations less than 100, and about 500 have populations less than 1,000. Minnesota lays claim to Tenney, the smallest city in the nation with a population of six—or five or four or seven, depending on the census you look at.

One may wonder why some of the smaller cities even exist, and the reason can often be traced back to planning and zoning laws. Cities, unlike townships, have autonomy on zoning. There have been cities incorporated for the sole purpose of controlling their zoning or to prevent annexation by a neighboring city. But the common thread of the most vibrant and vital small cities I know is a common vision of the future and to preserve the past.

Leonard: Ditto on Bart's and Dave's responses. Viability also depends on the remoteness of the town and the can-do spirit of the people. A town considered very small—under 500, for example—could be a vibrant regional center if it is in a very rural area with even smaller towns or hamlets around it and has some essential places and services—a post office, church, community center, food, gas and hardware.

fedgazette: There is a lot of attention paid to small-town sustainability, which seems to imply a lack of sustainability currently. What exactly is the sustainability threat? What threats are systemic and affect virtually all small towns, and which ones are more selective, or even anecdotal?

Engstrom: From my observation, the biggest systemic threat is related to population decline, and specifically among younger age groups. As the population in small cities declines and grows older, there is less consumer activity, causing a decline in retail business. Also, school districts with fewer students fuel the local economy less. It's a vicious cycle once it starts. The decline in retail and business activity leads to a glut of Main Street retail buildings, which drives down property values and eventually leads to a decreased tax base.

The selective or targeted threats I have seen usually stem from a loss of a major employer or in some cases a regional "big-box" retail operation opening up nearby. The loss of a high percentage of employment is always devastating. But when a new big-box store opens up, it causes the local mom and pop businesses, grocery stores, hardware stores and others a lot of stress and strain and possible demise.

Leonard: The advent of the auto, cheap gas and better roads accelerated the fragility of small towns. It allowed people to travel farther in less time for supplies they needed. That practice led to more regionalization in government services, education, health care and commerce, which in turn further weakened small towns.

Higher gas prices curtailed some of the regional travel in recent times, but right or wrong, people still vote with their pocketbooks and their vehicles. They shop and get health care and government services in regional centers because of the perceived lower costs and wider selection. More ubiquitous broadband and leaders who champion "buy local" efforts can help bring back key services and businesses.

Finzel: I would add that farm consolidation and reduced diversity of farm outputs—some resulting from economies of scale and others from farm policy—have contributed greatly to the population loss. Also, high returns earned by highly specialized labor—in medicine, law and finance—have contributed to shortages of the general practitioners so essential to small-town sustainability.

fedgazette: Many small towns have been losing population for decades. Economists generally argue that migratory trends are market signals—households are making efficient decisions based on their perceived best interests. Should government support or subsidize small towns in hopes that they become more attractive? If yes, what's the most efficient way of doing so?

Leonard: This is the eternal question since people moved to urban areas from farms and small towns as industrialization took hold in the 19th century. Where is opportunity? Opportunity depends on personal choice, need and situation. So my answer to the subsidy question is "it depends." Rationally, some towns are strategically more important to support with subsidies—gateways to resources that we all depend on, for example. Some towns given access to subsidies for broadband, for example, become more attractive to both lone eagles and businesses that depend on high-speed access to the world.

It's important to maintain a healthy rural-urban balance for a number of reasons. The best example of efficiently doing that, of everyone pitching in a little to support one another, was the rural electrification and telephone subsidies beginning in the 1930s and continuing today. That catalyst opened the doors to innovation and revitalized the countryside.

Yet, small towns have disappeared since forever. New ones have been built in different places as opportunities evolve. It may seem easier to have a sweeping one-size-fits-all policy in subsidies—to do it or not—but case-by-case decisions on the different forms of support available ensure better stewardship of shared resources.

Finzel: I do not necessarily agree that the migration away from small towns is entirely the result of market forces. Although small-town decline is partially the result of limited opportunities, farm programs added to population loss by supporting a limited number of commodities and contributing to larger farms, fewer farmers and less-viable small towns. Other structural issues, such as health insurance being far more expensive for small firms than for large firms, have also contributed to out-migration.

Regarding small-town support, providing assistance to the relatively small economic entities that are the backbone of small towns—rural hospitals, micro enterprise, community banks, cooperatives, small farms benefiting from the local food movement—will be most successful. Regulatory reform and subsidies directed at very small firms in the federal health care reform bill should also enable small firms—and small towns—to retain talented employees who might have migrated to larger firms with a better health insurance plan.

Engstrom: The main support needed is state assistance for basic necessities that a city provides. All citizens in Minnesota deserve basic services related to health and safety at a fair price. If a community can retain good, basic services at reasonably competitive property tax rates, then it has a chance at competing for new housing and business. This cannot be done without some sort of property tax equalization program like the current Local Government Aid, which has been the target of huge cuts over the last few years.

fedgazette: What loss is most critical to a community, and why? Put another way, what elements are key to whether communities die, merely survive or thrive?

Engstrom: It's hard to pinpoint what is the most crucial loss to a community as far as allowing a small city to remain viable. At some point, the combined losses of places of worship and places to shop and gather, combined with the population decline, breaks a community spirit. So I guess I'm saying it is the community spirit that is most critical to a community. Small cities with tiny populations can thrive or fail based on the spirit and support of the residents.

Leonard: I agree, and I'll add this: How young people are regarded by a community is key. If enough people hold a mindset that young people don't have a future in their small town and that belief is instilled from an early age, then the town is on a downward spiral. If kids are embraced, supported and encouraged to be a part of the community's present and future, then that community is investing in its own future.

Engstrom: Jane, those comments are right on the mark.

fedgazette: There is a lot of angst regarding the loss of state aid and other support for rural areas. Is long-

Engstrom: In some cities, LGA payments are 30 to 50 percent of total available revenue. When LGA is cut, as has happened the last few years, there is a limited choice for city councils to make up the lost revenue. Most simply cannot raise taxes, and many cities are subject to state-imposed levy limits.

Leonard: I don't agree that we as a world are as interconnected socially as you suggest. The connections we have tend to be in distinct circles based on our own special interests.

term survival tied more to internal capacity—local leadership—or does external funding and other support play an outsized role?

Engstrom: If we are going to preserve small towns as a way of life, there is an absolute need for some sort of property tax equalization to provide assistance to communities in need. So the loss of state aid payments, such as Local Government Aid, for small cities is a huge problem. Some communities have a very poor tax base, and paying for services like police protection would require a much higher-than-average tax levy [if LGA were cut]. Some small cities do not receive LGA because their tax base or tax capacity is very high—like those in the lakes region with high-end homes.

In some cities, LGA payments are 30 to 50 percent of total available revenue. When LGA is cut, as has happened the last few years, there is a limited choice for city councils to make up the lost revenue. Most simply cannot raise taxes, and many cities are subject to state-imposed levy limits. The usual city response is to not fill vacant positions, cut positions and also cut back or limit capital improvements and expenditures. There is at least one city in Minnesota that has pledged its LGA payment to payment of bonds that were used to improve its wastewater system. Nonpayment of LGA could cause default on the bond payments.

Leonard: Local leadership is a necessity for long-term survivability, but external resources and external leadership matter a great deal. These days, we face a crisis in confidence in ourselves. We justify decreasing state aid as a way to hunker down until the storm passes. But hunkering down doesn't work when we are going through dramatic, long-term transformations that require proactive leadership and resource investments coordinated across local, state and national levels.

We made a pledge when this nation was founded out of 13 colonies: *e pluribus unum*—"out of many, one." In practice, at national and state levels, it means we strive to contribute equitably to the commonwealth to ensure reliable and consistent levels of basic services and infrastructure across our states and nation. This "commonwealth" is the base upon which further community and economic development can happen.

Finzel: A sudden loss of state aid, particularly if coupled with continuing tax limits on local government, would be destructive for small cities. Even the most enlightened local leadership couldn't move quickly enough to overcome the blow.

I agree with Jane. State aid is an expression of our collective desire to ensure that all have access to basic services and to not have areas of the state barren and blighted. Larger units of government have greater capacity to smooth over the peaks and valleys of funding levels market economies naturally create and should play that role.

fedgazette: There's a lot of talk about better rural-urban connections. It could be argued that the world has never been more socially and economically interconnected. So what's the "connection" problem or gap that needs bridging?

Leonard: Historically, we had stronger rural-urban connections because our region was very rural up until just after World War II. People who did move to the city still had strong ties back in the countryside. With increasing urban- and suburbanization, rural ties have weakened in succeeding generations.

Today, I'm amazed at how few people make an effort to visit parts of their state that are different from where they live. We've had a tradition in Minnesota of "going up to the lake," but that is usually a narrow corridor between a city and lake country that omits vast parts of very rural or very urban places.

I don't agree that we as a world are as interconnected socially as you suggest. The connections we have tend to be in distinct circles based on our own special interests. To thrive, we have to be more intentional about reaching beyond our own comfort levels and connect with people and places different from our own settings.

Finzel: As a professor in a small town, I find it remarkable to witness students with urban sensibilities truly connect with the realities of rural places. Some students are empowered by the connection. Others go home.

Students from urban areas take 24-hour shopping, a Walmart or Target, a cinema multiplex and a variety of dining opportunities for granted. Moreover, as their family ties to rural areas have lessened with each generation, their knowledge of small places and their ability to imagine a life without urban amenities have diminished.

After a time, urban students who stick it out find that those in small towns make the most of their limited menu of options: friends cook for one another and create their own entertainment; problems are solved by coming together, rather than making a phone call to a service provider; goods and services are provided by local sole proprietors, barter or not at all. Students learn that nothing can be taken for granted in a small community. Doing for oneself and one's community is necessary. A sense of shared responsibility is cultivated.

fedgazette: Step back for a big-picture view. Small towns are the historic roots of this country. Then came urbanization, suburbanization and now a lot of emphasis on the competitiveness of regions and regional centers. Can you envision the pendulum swinging to a point where rural areas and small towns are again a preferred, market-driven place to live?

Finzel: Small towns that exist because they provide essential services are, I suspect, unlikely to make a comeback because major services will continue to migrate to regional centers. But small towns that are built on a set of shared beliefs or aspirations, be it a desire for sustainable communities or the chance to fully engage in all aspects of a community, will be attractive in the future. This depends critically on leaders gathering residents together to articulate a shared vision. It will also depend on whether the town welcomes newcomers, creates opportunities for retirees to return and fosters a degree of promise in the future.

The advantages of small-town life—the cheap and abundant housing stock, the community's role in child rearing, the relative security of knowing your neighbors, the opportunities for self determination and self-expression—will continue to be attractive to some. My thinking is that we are near bottom in terms of out-migration from small communities.

Engstrom: There will always be people who desire the "small-town lifestyle." I do not think we will get back to a point where small towns are the hubs of commerce in rural Minnesota simply because of the change in agricultural practices. We will have large urban cities, suburbs and regional centers, and there will always be small towns. For many, a small town is a lifestyle choice—for retirees returning to their roots or families looking for a more affordable housing option, maybe with a longer commute.

I would agree with Bart that the out-migration from small towns may be subsiding. What I can envision is small towns that exist as housing clusters; Main Street may not be the same, but there will be some basic services, even if it's a convenience store and maybe a place of worship. Some small towns will do better than others, and those that have the good leadership to work toward developing their own microeconomy will do very well.

Leonard: The majority of people in this country do prefer to live in a small town if there are certain amenities nearby: recreation, health care, education, jobs or business opportunities, churches and social/civic groups. Broadband can create improved access to health care, education and some economic opportunities anywhere. Small-town resurgence based on recreational amenities—lakes and mountains—has been evident for some time.

The aging of the baby boomers also represents an opportunity for small towns. Many people do want to return to their small-town hometowns when they retire. They have lots of experience, know-how and leadership skills to contribute to any place they settle.

fedgazette: Thank you.

—Ronald A. Wirtz

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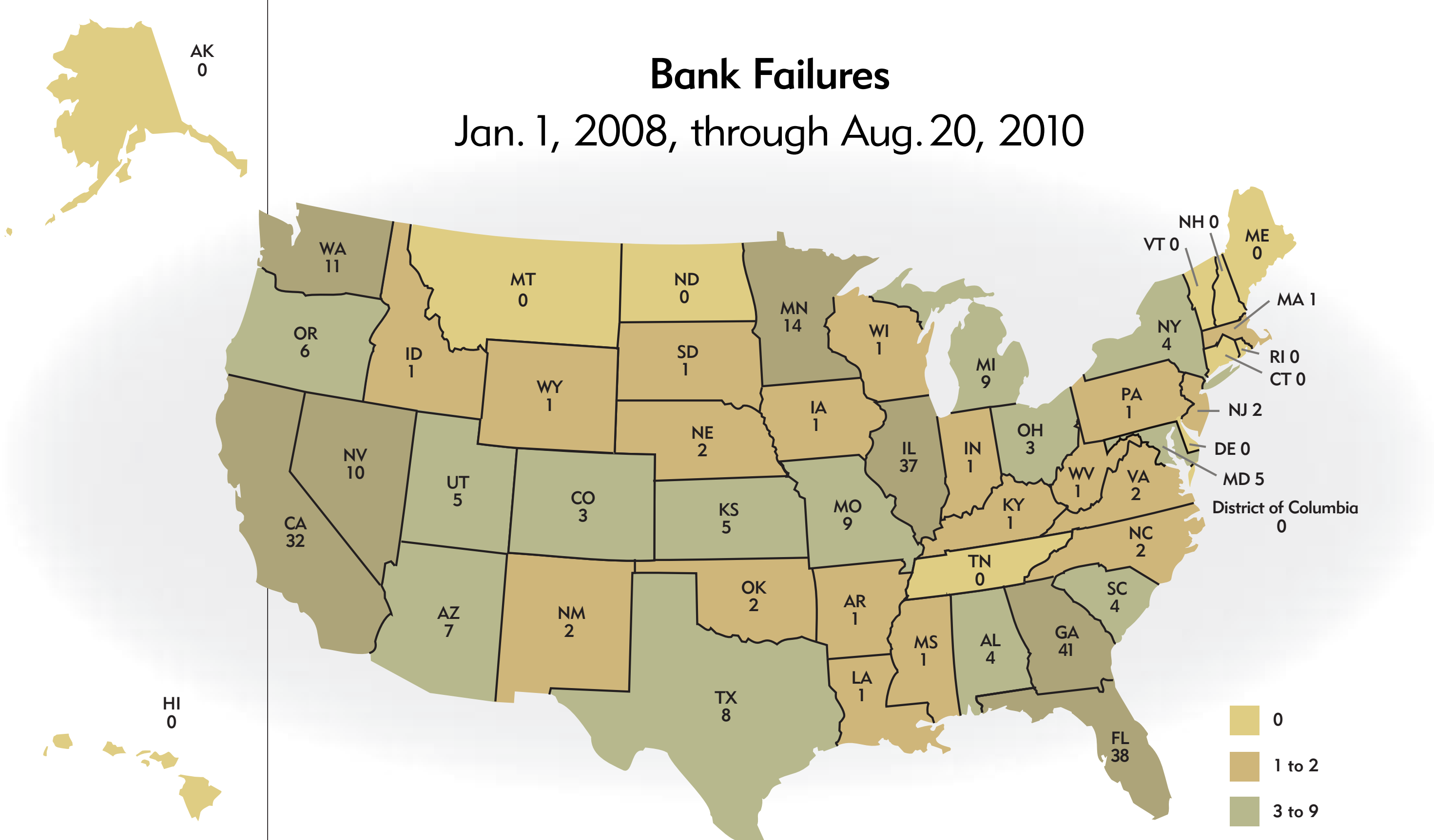
Green Jobs

October 2010

Bank Failures
Jan. 1, 2008, through Aug. 20, 2010



*Does not include three bank failures in Puerto Rico.
Source: Federal Deposit Insurance Corp.